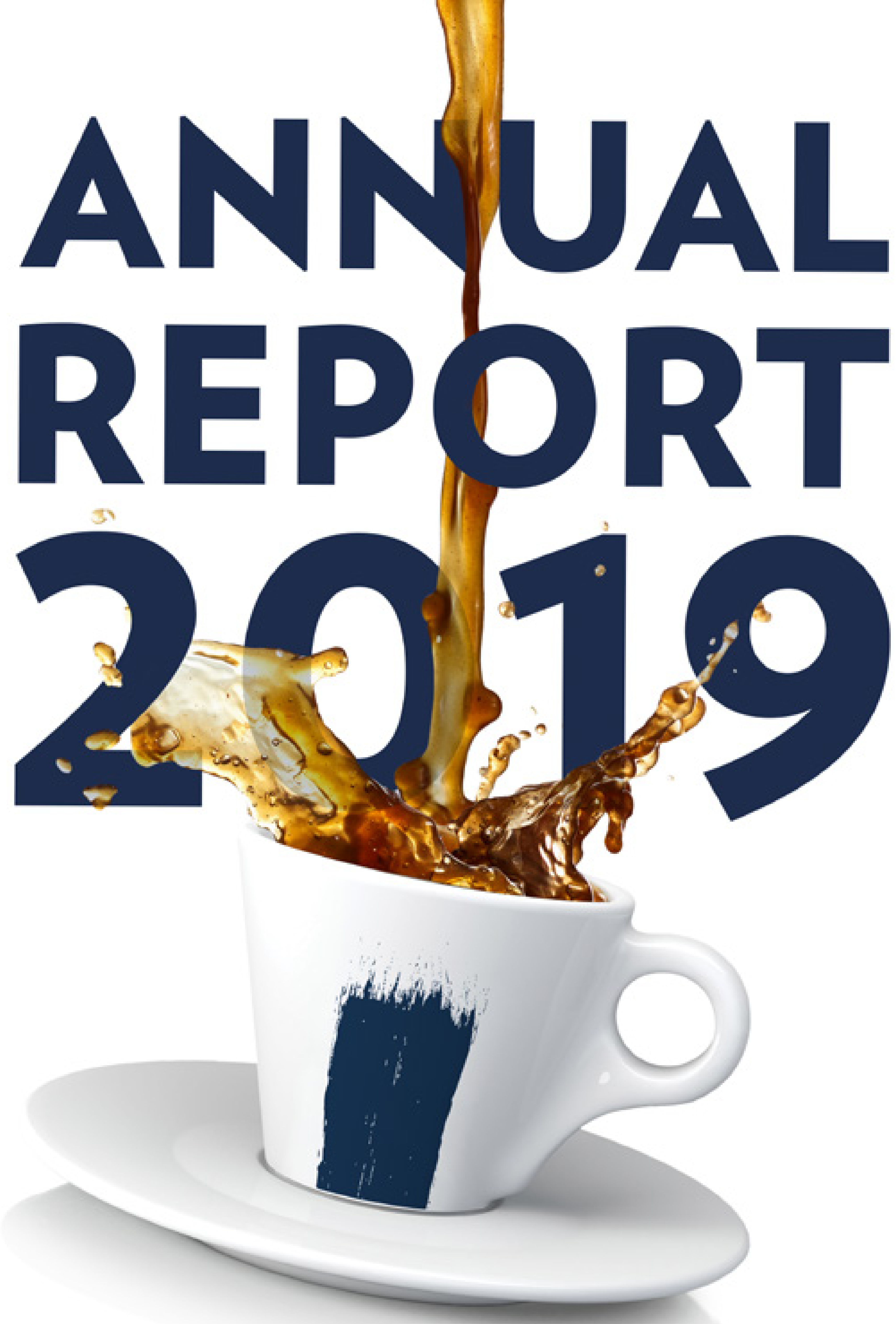
ANNUAL REPORT 2019



LAVAZZA GROUP

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 Bernardo Bertoldi

INDEPENDENT AUDITORS

EY S.p.A.

GROUP STRUCTURE

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DIRECTORS' SINGLE REPORT ON OPERATIONS

Dear Shareholders,

The financial year ended 31 December 2019 closed with a Group's consolidated profit of € 127,382 thousand based on the IFRS and Luigi Lavazza S.p.A.'s profit of € 106,187 thousand based on Italian GAAP (OIC).

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

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A history made of innovation

Over 120 years ago, in his grocery shop in Turin Luigi Lavazza invented and marketed the concept of blending: the art of combining different coffee varieties and origins, which even today distinguishes all Lavazza products.
In the early decades of the 20th century, Lavazza was the first company to locally distribute coffee in bags bearing its logo. In 1950, the company used for the first time in Italy vacuum tins to preserve coffee and in 1971 the first flexible vacuum brick pack. In 1989, Lavazza was also the first brand to introduce multiple coffee packs.
In the same year, it entered the portioned coffee market, becoming the first Italian company to produce and market capsule-based espresso systems. Thanks to ongoing collaborations with an international network of universities and scientific institutes, Lavazza now has different platforms in the portioned coffee segment.
Innovation has always been closely intertwined to research, and the company is known as an organisation with a "continuous innovation cycle", ranging from the art of blending to vacuum-packed coffee, from portioned to instant coffee, from decaffeinated coffee to the ISSpresso machine — developed alongside the Italian aerospace engineering firm Argotec (in a public-private partnership with the Italian Space Agency) — capable of functioning in the extreme conditions of space.
This constant passion for quality led the company in 1979 to found the Luigi Lavazza Centre for Coffee Studies and Research, dedicated to analysis and in-depth study of espresso and the spread of espresso culture. This then evolved into the Lavazza Training Center, an international network of over 50 coffee schools throughout the world, where 30,000 people are trained each year.
Constant innovation is also essential when it comes to the significant industrial investments in recent years that have made the Group more efficient, flexible and nimble in responding to a constantly evolving market.

A multibrand Group

In recent years, the Lavazza Group has embarked on an international development process aimed at consolidating its independence and competitiveness at the global level, with the mission of being a premium pure coffee company: concentrating solely on high-quality coffee by leveraging the value of its brand.
Specifically, the company has completed some major transactions: Merrild, a leading retail coffee brand in Denmark and the Baltic countries, joined the Lavazza Group in 2015. In the same year, the Group also took over the distribution business for Lavazza products from its local partner in Australia, thereby establishing a new subsidiary in Melbourne.

Since 2016, Carte Noire has been part of the Lavazza Group, which has included in its industrial system also the production site in Lavérune, located in the Occitanie region. This important transaction allowed Lavazza to take a position on the strategic French market, which is one of the top five coffee markets in the world and now the company's number-two market for the Group.
In addition, as part of its globalisation and premium positioning strategy, in 2017 the Group completed the acquisition of the Canadian brand Kicking Horse Coffee — a leader in the organic, fair-trade coffee segment in North America — acquiring an 80% stake in the company.
In 2017, to strengthen its distribution strategy, Lavazza also acquired the shares in Espresso Service Proximité (subsequently merged into Lavazza France), a company specialising in the OCS segment, and an 80% stake in NIMS, an Italian firm specialising in distribution and direct door-to-door sale of coffee capsules and coffee machines throughout Italy. In 2018, Lavazza acquired the business of the Australian company The Blue Pod Coffee Co.

HIGH-QUALITY
COFFEE
BY LEVERAGING
THE VALUE
OF ITS BRAND

2019
INTEGRATION OF LAVAZZA PROFESSIONAL

At year-end 2018, following the acquisition of Mars Drinks, the company set up the Lavazza Professional Business, which includes the Flavia and Klix OCS and Vending systems. In 2019, their integration within the Group was successfully completed.

In 2019, Lavazza was again among the first 50 brands in the world by reputation according to the Global RepTrak 100 by the Reputation Institute, the world's leading reputation-based research advisory firm (49th in 2018, 38th in 2019).

Group's result for the year

The following table shows the Group's operating and financial highlights at 31 December 2019 compared with the previous year:

€ million	2019	RATIO %	2018	RATIO %
NET REVENUES	2,199.7	100.00%	1,870.0	100.00%
EBIT	156.0	7.09%	110.7	5.90%
EBITDA	290.6	13.21%	197.3	10.60%
ADJUSTED EBITDA	**300.7**	**13.67%**	**206.5**	**11.00%**
PROFIT FOR THE YEAR	127.4	5.79%	87.9	4.70%
CAPEX	157		100.7	
NET FINANCIAL POSITION	**(82.1)**		**(15.0)**	
EQUITY ATTRIBUTABLE TO THE GROUP	2,391.20		2,264.5	
HEADCOUNT	4,022		3,836	

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GENERAL PERFORMANCE AND MARKET SCENARIO

Following the slowdown that began in the second half of 2018 and continued in 2019, the world economy currently appears to be undergoing gradual stabilisation. The elimination of significant risks such as the US-China trade war and the prospect of the United Kingdom's departure from the EU, along with the monetary easing implemented by the main central banks, contributed to stemming the deterioration of the manufacturing sector at the global level. In most of the major economies, demand has remained solid in recent quarters, averting a possible decline in global economic activity.
However, downside risks remain. The agreement reached in recent weeks between China and the United States has not put an end to some of the more structural differences between the world's two largest economies. Furthermore, the political uncertainty surrounding the US presidential elections in November and the negotiations between London and Brussels does not appear to have been assuaged; the same can also be said for the geopolitical tensions in the Middle East.
In the United States, a robust job market and sustained demand prevented the clear slowdown in the secondary segment of the financial market from having severe repercussions on the growth rate. The change of direction by the Federal Reserve, which lowered its reference rate in June, July and September by a total of 75 basis points, contributed to revitalising the economy, consumption and the real-estate market. The main risk appears to be political in nature: the name of the Democratic candidate who will run against Donald Trump in the November presidential elections will only be known in the spring.
The simultaneous slowdown of the Chinese economy and of the automotive industry and the Brexit uncertainty had a significant adverse impact on the European economy, resulting in slowing in Germany in particular. Despite the recent progress at the level of business sentiment indicators, Continental supply has now continued to contract on a period-on-period basis without interruption for over a year. Also in this regard, the ECB's monetary expansion and stable demand warded off a recession, although the recovery will in all likelihood be fragile and quite modest in extent. The Old Continent would benefit from the potential adoption of fiscal stimulus in Germany and/or at the Community level, but the political will to opt for a solution of this kind currently appears to be very limited.
China's growth continues to slow gradually, and in 2020 it is forecast by the IMF to amount to 6%, the lowest level since 1990. The expansionary fiscal and monetary measures taken by Beijing facilitated the stabilisation of the economy in the second half of 2019, but there continue to be risks associated with the very high level of domestic debt. This stabilisation of China may favour the other emerging countries, which in many cases, such as those of Brazil, Indonesia and Russia, also benefit from the significant cuts to the cost of money recently applied by the respective central banks.
Finally, the International Monetary Fund forecasts that Italy will grow by 0.5% in 2020, following on the +0.2% recorded in 2019. This is the most modest level of the main economies that share the single currency. Italy is certainly being affected in a cyclical sense by the slowdown in Germany — one of its main national target markets — but it is also hindered by its own structural limits, which constrain its competiveness and the efficiency of its production system.
The Italian fiscal environment continues to deteriorate, not only due to the expansionary policies pursued by the executive, but also impeded by anaemic growth. More encouraging, while insufficient to halt the rise in government debt, is the constant decline in the deficit/GDP ratio, driven in part by the decrease in borrowing costs and the lower-than-expected costs of the measures implemented by the government.
At the date of approval of the financial statements, on the basis of the information available, the health emergency caused by the recent spread of the Covid-19 virus, designated a pandemic by the World Health Organization (WHO), has been classified for the purposes of international accounting standards (IAS 10) as a "non-adjusting" event. The nature of this event is described in the "Outlook" section of this Report.

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INDUSTRY OVERVIEW

At Home business

In the At Home business, with reference to the Italian context and more specifically the Food&Drug sector, sales rose by value (+1.7%), split in +1.3% volume increase and +0.4% price increase.
Among product categories, there was growth above all in Fresh Products (+3.8% by value) and Beverages (+1.8%), the latter due to higher temperatures. The packaged foods segment remained stable.
From a competitive standpoint, the Food&Drug sector showed a greater focus on premium segments and growth of products with a high price positioning. The development of Private Labels continued.
After an essentially flat year, coffee consumption started again to decrease by volume; the balance of sales by value also declined (-1%), whereas average price increased by 2%. The percentage of promotional sales on the coffee market was high (50%), growing moderately within a slightly shrinking market.
The reduction of coffee sales was driven by the decline in sales of traditional ground coffee — both with caffeine and decaffeinated — and espresso, which was not offset by the increase in sales of capsules, which continue to show double-digit growth rates (+18%). In particular, the espresso segment and, in part, decaffeinated coffee continued to be penalised by consumers' choices, as a result of the shift towards the capsule segment, which was also strengthened by the increasingly widespread availability of products compatible with the main espresso machine systems and stores specialising in selling capsules and machines.
Within this scenario, Lavazza's performance was positive, both in the more traditional moka coffee pot segment and in the espresso and whole bean products, thanks to a stronger promotional support, which penalised all major competitors. An exception were Private Labels, which gained additional market shares in the coffee segment as well, and companies focussing on the sale of capsules.
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Food Service

In the Food Service channel, Lavazza grew both in terms of net revenue and volumes in 2019, consolidating its market share in a context marked by a slight recovery. Growth was driven by an expansion of the customer base and a focus on the premium segment of the market, accompanied by a series of acquisitions of very important clients in the away-from-home market.
By contrast, the Eraclea brand, was affected by a seasonality that was not in line with expectations, declining slightly despite an increase in customers using the brand's products compared to 2018.

OCS

The volume performance of the vending channel in Italy has always been closely correlated to the number of hours worked, i.e. the presence of individuals in workplaces such as factories, offices and businesses.
In 2019, this parameter performed positively in the first four months of the year, to then decline in the middle and final parts of the year. The full year figure was thus essentially stable on the previous year.
Within this scenario, Lavazza's market share grew due to the stable volumes of BLUE capsules, the sharp rise in whole bean blends dedicated to this channel and the launch of new products such as "Qualità Rossa" and "¡Tierra!".

By contrast, the professional OCS market continues to show a negative market trend: capsules are increasingly being supplied to small offices not by specialised firms but by other distribution channels such as e-commerce or mass retail. Nonetheless, Lavazza's market share also increased in this segment, due solely to the development of the Firma system and the particular commercial model (free loan for use) through which the system is distributed.

Finally, Lavazza increased its share and volumes in the specialised pod and capsule store channel, a segment of the market that continues to show a growth trend, albeit to a lesser extent than in previous years.

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INTERNATIONAL MARKETING PROJECTS

In 2019, the Lavazza Group consolidated its international presence while strengthening its independence and competitiveness at the global level and also entering the Chinese market through the recent opening in Shanghai of Lavazza's first flagship store in Asia under the joint venture formed with Yum China in early 2020.

REAL ESTATE

In 2019, the new outside seating area of the Condividere restaurant, designed by Dante Ferretti, was installed on the grounds of the Nuvola headquarters facility.

Plans to strengthen the Company's local presence moved forward, involving the opening of the new sales branch in Turin and completion of the new sales office in Catania, which will serve as a valuable tool for reinforcing the brand's position on the local market, as was the case for the Torre del Greco offices in 2018.

International developments in 2019 included the opening of the prestigious new Training Center facility in Paris, located at 125 Avenue des Champs-Élysées, and the expansion of the New York subsidiary at 120 Wall Street to include an additional 650 square metres on the 32nd floor, with housing offices, showrooms and meeting rooms.

INDUSTRIAL INVESTMENTS

Industrial investments in Italian plants increased compared to the previous year. At the Gattinara plant, initiatives to upgrade production capacity so as to expand the range of portioned and Roast & Ground products, especially the 1kg whole bean format, are nearing completion.
In 2019, investments began in the Settimo Torinese plant to diversify both Roast & Ground and portioned formats dedicated to small production runs and new product launches.
Finally, investments to increase production flexibility, particularly in the preparation and transport of raw materials to the Settimo Torinese plant were completed.

Lavazza Flagship Store - Shanghai

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CONSOLIDATED OPERATING, CAPITAL AND FINANCIAL SITUATION OF THE LAVAZZA GROUP

Reclassified statement of profit or loss

€ million	YEAR 2019	RATIO %	YEAR 2018	RATIO %	CHANGE	% CHANGE
Net revenues	2,199.7	100.0%	1,870.0	100.0%	329.7	17.6%
Cost of sales	(1,217.5)	-55.3%	(1,080.4)	-57.8%	(137.1)	12.7%
GROSS PROFIT	**982.2**	**44.7%**	**789.6**	**42.2%**	**192.6**	**24.4%**
Promotional and advertising costs	(203.9)	-9.3%	(197.2)	-10.5%	(6.7)	3.4%
Selling costs	(189.2)	-8.6%	(176.6)	-9.4%	(12.6)	7.1%
General and administrative expenses	(256.4)	-11.7%	(185.2)	-9.9%	(71.2)	38.4%
Research and development costs	(15.3)	-0.7%	(7.0)	-0.4%	(8.3)	118.6%
Other operating income (expense)	(16.7)	-0.8%	(17.1)	-0.9%	0.4	-2.3%
ADJUSTED EBITDA	**300.7**	**13.7%**	**206.5**	**11.0%**	**94.2**	**45.6%**
Non-recurring income (expense)	(10.1)	-0.5%	(9.2)	-0.5%	(0.9)	9.8%
EBITDA	**290.6**	**13.2%**	**197.3**	**10.6%**	**93.3**	**47.3%**
Amortisation and depreciation	(134.6)	-6.1%	(86.6)	-4.6%	(48.0)	55.4%
EBIT	**156.0**	**7.1%**	**110.7**	**5.9%**	**45.3**	**40.9%**
Financial income (expense)	(0.3)	0.0%	5.6	0.3%	(5.9)	-105.4%
Dividends	0.1	0.0%	0.2	0.0%	(0.1)	-50.0%
PROFIT BEFORE TAXES	**155.8**	**7.1%**	**116.5**	**6.2%**	**39.3**	**33.7%**
Income taxes for the year	(28.4)	-1.3%	(28.6)	-1.5%	0.2	-0.7%
PROFIT FROM CONTINUING OPERATIONS	**127.4**	**5.8%**	**87.9**	**4.7%**	**39.5**	**44.9%**
Profit/(loss) from discontinued operations	0.0	0.0%	0.0	0.0%	0.0	0.0%
PROFIT/(LOSS) FOR THE YEAR	127.4	5.8%	87.9	4.7%	39.5	44.9%
PROFIT/(LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	**0.8**	**0.0%**	**0.3**	**0.0%**	**0.5**	**166.7%**
PROFIT/(LOSS) ATTRIBUTABLE TO THE GROUP	126.6	5.8%	87.6	4.7%	39.0	44.5%

Reclassified statement of financial position

€ million	31.12.2019	31.12.2018	CHANGES
Inventories	369.3	361.6	7.7
Trade receivables	306.6	308.8	(2.2)
Trade payables	(367.8)	(365.6)	(2.2)
Other assets (liabilities)	(14.8)	(22.0)	7.3
Total net working capital	**293.4**	**282.8**	**10.6**
Property, plant and equipment	610.0	674.0	(64.0)
Intangible assets	1,421.1	1,432.9	(11.9)
Right of use	162.1	(0.0)	162.1
Non-current financial assets	27.4	28.0	(0.6)
Deferred tax assets/liabilities	(16.7)	(3.7)	(13.0)
Provisions	(103.8)	(82.1)	(21.7)
Provision for employee severance indemnities	(86.3)	(79.4)	(6.9)
Total net fixed assets	**2,013.8**	**1,969.8**	**44.0**
Assets held for sale	**5.2**	**0.0**	**5.2**
TOTAL INVESTED CAPITAL	2,312.4	2,252.6	59.8
Equity	**2,394.5**	**2,267.6**	**126.9**
Financial receivables and other non-current assets	(50.3)	(49.5)	(0.8)
Current financial assets	(208.4)	(225.1)	16.7
Cash and cash equivalents	(637.1)	(595.3)	(41.8)
Payables to banks and other non-current liabilities	620.0	710.7	(90.7)
Payables to banks and other current liabilities	193.8	144.2	49.7
Total net financial position	**(82.1)**	**(15.0)**	**(67.0)**
TOTAL FINANCING SOURCES	2,312.4	2,252.6	59.8

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Reclassified statement of cash flows

€ million	YEAR 2019	YEAR 2018
PROFIT FOR THE YEAR	**127**	**88**
Income taxes	28	29
Financial expense/(income)	9	(3)
Value adjustments to financial assets and liabilities	1	(9)
(Gains) losses from disposal of assets	1	1
Additions to provisions, employee benefits and other non-monetary components	51	50
Amortisation, depreciation and write-downs	145	87
RESULT ADJUSTED FOR NON-MONETARY COMPONENTS	**362**	**244**
Change in trade receivables	4	35
Change in inventories	(6)	23
Change in trade payables	(18)	(1)
Change in other receivables/payables	3	(4)
CASH FLOW AFTER CHANGES IN NET WORKING CAPITAL	**345**	**297**
Taxes paid	(25)	(10)
Use of provisions and indemnities paid	(29)	(20)
Interest and dividends collected, interest (paid)	(9)	3
CASH FLOWS FROM OPERATING ACTIVITIES	**282**	**270**
Purchase of property, plant and equipment	(134)	(86)
Purchase of intangible assets	(23)	(15)
Other disbursements for investment activities	(1)	0
Acquisitions	15	(533)
CASH FLOWS FROM INVESTING ACTIVITIES	**(143)**	**(634)**
Dividends paid	(36)	(77)
CASH FLOWS FROM FINANCING ACTIVITIES	**(36)**	**(77)**
Other scope and non-monetary changes	24	(45)
Exchange rate effect	(7)	(1)
CASH FLOWS GENERATED (USED)	**120**	**(488)**
Net financial position at year-start	**15**	**503**
Effect of IFRS 16 FTA at year-start	(53)	0
Net financial position at year-end	**82**	**15**

Financial Performance of the Lavazza Group

2019 was a year of solid growth, confirming a further increase in operating profitability compared to that already observed in the previous year.
Economic indicators showed an improvement in both revenues and margins. This was possible thanks to the excellent performance recorded in all business segments and to the full integration of the Drinks division of Mars Inc, renamed "Lavazza Professional", acquired at the end of the previous year.
The results confirm the effectiveness of the business model and the strategy that have allowed the company to grow even in a still shrinking market context.

+17.6%
CONSOLIDATED NET REVENUES

Consolidated net revenues amounted to €2.2 billion, up 17.6% compared to €1.87 billion for the previous year (30% Italy and 70% foreign markets). The growth is attributable to both the integration of Lavazza Professional (for a total of about €300 million) and to the positive performance of the Group's business, which recorded a double-digit growth in North America (+15.2%), North Europe (+13%) and Eastern Europe (+ 23%), chiefly in Russia and Poland.
In 2019, the Lavazza Group grew in all channels, particularly in the Single Serve (+5.2%) and Roast & Ground (+3.8%) channels. Lavazza also entered the ready-to-drink segment, which is undergoing a major expansion globally, through a partnership with PepsiCo, thus approaching the youngsters and the new consumption methods, with a high-quality, premium product. Initially launched in the UK, Lavazza's ready-to-drink products will be launched also in other European countries in 2020.
Beside achieving good operating and financial results, in financial year 2019 Lavazza was ranked 38th among the first 100 brands in the world by reputation according to the Global RepTrack. In addition, the Company was ranked among the top ten companies on Reputation Institute's 2019 Global Corporate Responsibility List, and first worldwide in the Food industry.
Moreover, Lavazza confirmed its position as a Top Employer in Italy, whereas in France Carte Noire was among Best Places to Work.

The Lavazza Group's **EBITDA** was €290.6 million, up 47.3% compared to €197.3 million for the previous year; EBITDA margin was 13.2% (10.6% in 2018). Excluding the impact of IFRS 16 FTA, the Group's EBITDA was €278.2 million.
Adjusted EBITDA was €300.7 million, up 45.6% compared to €206.5 million for 2018, before one-off costs incurred for the acquisition and integration of the Lavazza Professional companies.
EBIT amounted to €156.0 million, up by 40.9% compared to €110.7 million for 2018, with EBIT margin of 7.1% (5.9% in 2018).
Net profit amounted to €127.4 million, up 44.9% compared to €87.9 million for 2018.

+44.9%
PROFIT

Net working capital amounted to €293.4 million, up €10.6 million compared to €282.8 million at 31 December 2018. This change was attributable to the following factors:

- higher inventories (€8 million);
- €2 million decrease in trade receivables thanks to improved collection times;
- €2 million increase in trade payables;
- €7 million increase in other operating assets and liabilities.

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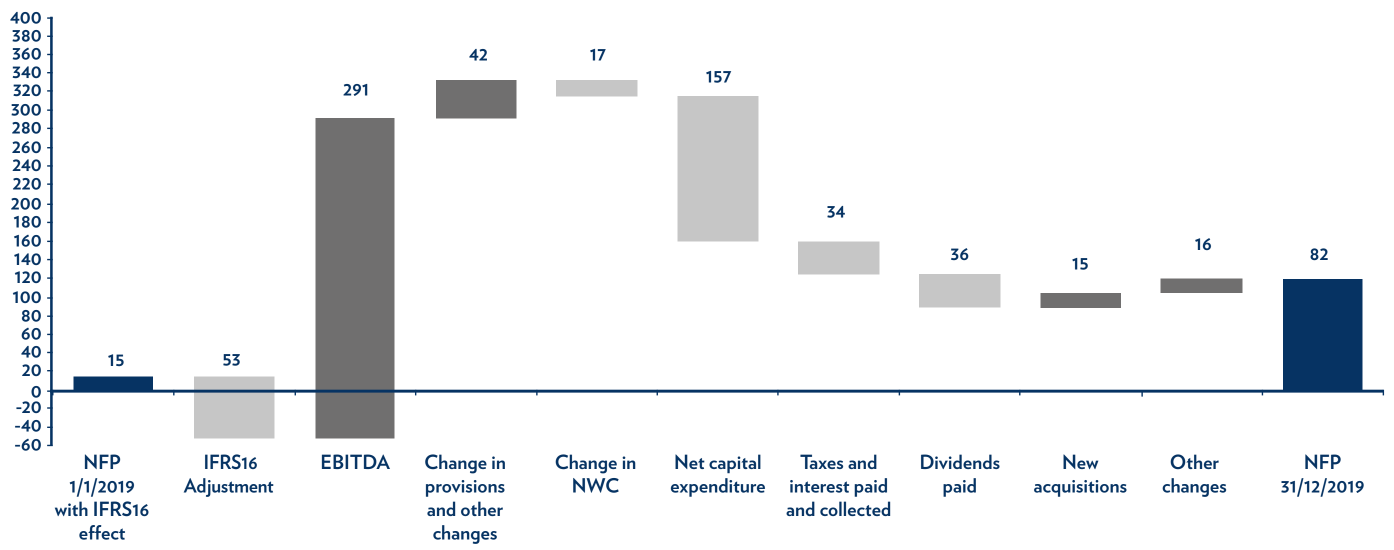
Net fixed assets totalled €2,014 million, compared to €1,970 million at 31 December 2018.
The change in **Property, plant, equipment and intangible assets** includes the effect of Purchase Price Allocation (PPA), in accordance with IFRS 3, of the acquisition of Mars' Drinks division, which is now called Lavazza Professional. In 2018, this item, which measures the difference between the price paid and the fair value of the acquisition, had been temporarily allocated to Goodwill.
In 2019, the price was adjusted in favour of Lavazza for a total amount of about €13 million.
Excluding the above-mentioned effects, intangible assets increased chiefly as a result of new IT investments, whereas the change in property, plant and equipment was due to new industrial investments and to the purchase of machines to be provided to clients based on a free-on-loan agreement, both offset by amortisation and depreciation for the year.
The **Rights of Use** refer to the application of IFRS 16 as of 1 January 2019, which on the FTA date led to the recognition in the statement of financial position of a financial liability of €53 million, represented by the present value of future lease payments, offset by the recognition among assets of a right of use of the leased asset, as well as the reclassification from property, plant and equipment to rights of use associated with the finance lease of the Nuvola headquarters.
Provisions increased due to provisions for personnel and for other future risks and charges related to investment and conversion projects aimed at further enhancing environmental sustainability of both the production processes and the finished products, by minimising the use of plastics.

Net financial position was positive at €82.1 million compared to €15.0 million in 2018, driven by positive cash generation, despite the negative effect of the application of IFRS 16, which impacted the net financial position due to the recognition of a financial debt of €53 million.
As highlighted in the following graph, the improvement was due to the cash flows from operating activities.
In detail, EBITDA was €291 million, net change in provisions and other non-monetary components were positive for €42 million, the change in net working capital was a negative for €17 million, taxes paid and interest paid and received amounted to a negative €34 million.
Moreover, in the reporting year, net investments in operating activities totalled €157 million and were broken down as follows:

- investments in property, plant and equipment (€134 million), mainly involving plant, industrial machinery and espresso machines provided on free loan for use;
- investments in intangible assets (€23 million), primarily due to development costs incurred in order to adapt and upgrade the Group's IT and reporting systems.

Lastly, the change in net financial position was attributable to the following non-operating items: a positive effect from the price adjustment of the acquisition of the Mars' Drinks business (now Lavazza Professional), and other transactions related to the change in the scope of consolidation totalling €15 million, and the dividend payout of €35 million.

The net financial position bridge is as follows:



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FINANCIAL PERFORMANCE OF THE PARENT COMPANY LUIGI LAVAZZA S.p.A.

The following table shows the Luigi Lavazza S.p.A.'s operating and financial highlights at 31 December 2019 compared with the previous year:

€ million	YEAR 2019	RATIO %	YEAR 2018	RATIO %
Net revenues	1,512.4	100.0%	1,526.4	100.0%
EBITDA	169.9	11.2%	157.0	10.3%
EBIT	68.4	4.5%	55.3	3.6%
Profit before taxes	115.3	7.6%	74.3	4.9%
Profit for the year	**106.2**	**7.0%**	**57.8**	**3.8%**
Net working capital	432.0		431.4	
Net fixed assets	2,171.7		2,245.7	
Total uses	**2,603.7**		**2,677.1**	
Net financial position	416.6		582.0	
Equity	2,187.1		2,095.1	
Total sources	**2,603.7**		**2,677.1**	
Capex	88.6		74.7	
Headcount	1,701		1,671	
ROS	**4.5%**		**3.6%**	
ROI	**5.8%**		**4.6%**	
ROE	**4.9%**		**2.7%**	

Net revenues amounted to €1,512.4 million, down 0.9% compared to €1,526.4 million for 2018.

EBIT amounted to €68.4 million, up €13.1 million compared to €55.3 million for 2018. EBIT margin went from 3.6% to 4.5%.

Profit before taxes amounted to €115.3 million, up by €41.0 million compared to €74.3 million for the previous year.

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

€ million	12.2019	RATIO %	12.2018	RATIO %	CHANGES	CHANGES %
Net revenues	1,512.4	100.0%	1,526.4	100.0%	(14.0)	(0.9%)
Other income and revenues	98.6	6.5%	89.5	5.9%	9.1	10.2%
Total income and revenues	**1,611.0**	**106.5%**	**1,615.9**	**105.9%**	**(4.9)**	**(0.3%)**
Cost of sales	724.5	47.8%	768.8	50.4%	(44.3)	(5.8%)
Costs of services	521.1	34.5%	513.6	33.5%	7.5	1.5%
Other costs	38.3	2.5%	38.9	2.5%	(0.6)	(1.5%)
Total external costs	**1,283.9**	**84.8%**	**1,321.3**	**86.5%**	**(37.4)**	**(2.8%)**
Value added	327.1	21.6%	294.6	19.3%	32.5	11.0%
Personnel costs	157.2	10.4%	137.6	9.0%	19.6	14.2%
EBITDA	**169.9**	**11.2%**	**157.0**	**10.3%**	**12.9**	**8.2%**
Amortisation, depreciation and write-downs	85.0	5.6%	74.0	4.8%	11.0	14.9%
Provisions	16.5	1.1%	27.7	1.8%	(11.2)	0.0%
EBIT	**68.4**	**4.5%**	**55.3**	**3.6%**	**13.1**	**23.7%**
Income (expense) from investments	38.5	2.5%	13.6	0.9%	24.9	183.1%
Financial income (expense)	8.4	0.6%	5.4	0.4%	3.0	55.6%
Profit before taxes	**115.3**	**7.6%**	**74.3**	**4.9%**	**41.0**	**55.2%**
Income taxes	(9.1)	(0.6%)	(16.5)	(1.1%)	7.4	(44.8%)
Profit for the year	**106.2**	**7.0%**	**57.8**	**3.8%**	**48.4**	**83.7%**

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

	€ million	2019	2018	CHANGES
	Inventories	263.7	256.2	7.5
	Trade receivables	119.1	138.7	(19.6)
	Receivables from subsidiaries, associates and Parent	273.0	251.5	21.5
	Deferred tax assets	43.8	55.9	(12.1)
	Other prepayments and accrued income	48.1	55.7	(7.6)
	Property, plant and equipment held for sale	5.3	0.0	5.3
A.	**Total operating assets**	**753.0**	**758.0**	**(5.0)**
	Trade payables	249.2	236.9	12.3
	Payables to subsidiaries, associates and Parent	10.3	8.6	1.7
	Tax payables and payables to social security institutions	9.5	30.8	(21.3)
	Other liabilities and deferred income	52.0	50.3	1.7
B.	**Total operating liabilities**	**321.0**	**326.6**	**(5.6)**
C.	**Net working capital**	**432.0**	**431.4**	**0.6**
	Intangible assets	570.4	592.2	(21.8)
	Property, plant and equipment	313.3	286.3	27.0
	Financial assets	1,397.6	1,453.0	(55.4)
D.	**Total fixed assets**	**2,281.3**	**2,331.5**	**(50.2)**
	Provisions	95.9	71.1	24.8
	Employee termination indemnities	13.7	14.7	(1.0)
E.	**Total fixed liabilities**	**109.6**	**85.8**	**23.8**
F.	**Total net fixed assets**	**2,171.7**	**2,245.7**	**(74.0)**
G.	**Total invested capital, net - Uses (C + F)**	**2,603.7**	**2,677.1**	**(73.4)**
	Cash and cash equivalents	(247.3)	(92.5)	(154.8)
	Current financial assets	74.9	(14.1)	89.0
	Financial liabilities	589.0	688.6	(99.6)
H.	**Net financial position**	**416.6**	**582.0**	**(165.4)**
	Capital	25.0	25.0	0.0
	Reserves	616.8	595.9	20.9
	Retained earnings	1,439.1	1,416.4	22.7
	Profit for the year	106.2	57.8	48.4
I.	**Equity**	**2,187.1**	**2,095.1**	**92.0**
L.	**Total sources (I + H)**	**2,603.7**	**2,677.1**	**(73.4)**

Profit for the year amounted to €106.2 million, up €48.4 million compared to 2018.

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

€ million	YEAR 2019	YEAR 2018
Profit for the year	106.2	57.8
Amortisation and depreciation	78.6	71.2
Net change in employee termination indemnities	(1.0)	(0.5)
Net change in provisions	24.7	42.0
Write-downs of equity investments and securities included in fixed assets	3.0	3.3
Other write-downs of fixed assets	4.8	1.2
Changes in items of net working capital		
- inventories	(12.8)	17.9
- trade receivables	19.6	6.1
- receivables from others and other assets	(1.7)	(26.3)
- trade payables	12.3	11.2
- other payables and liabilities	(17.9)	8.5
Cash flows from (used for) operating activities	**215.8**	**192.4**
Net purchases of:		
- intangible assets	(19.3)	(14.8)
- property, plant and equipment	(69.3)	(60.1)
- investments in subsidiaries, associates and other companies	(107.9)	(137.9)
- other non-current financial assets	159.3	(309.0)
Disposals of:		
- equity investments	1.0	0.0
Cash flows from (used for) investing activities	**(36.2)**	**(521.8)**
Dividends paid	(35.1)	(77.2)
Change in hedge reserve for expected cash flows	20.9	(12.7)
Cash flows from (used for) financing activities	**(14.2)**	**(89.9)**
Net cash flow for the year	**165.4**	**(419.3)**
Net financial assets / liabilities at year-start	**(582.0)**	**(162.7)**
Net assets / liabilities at year-end	**(416.6)**	**(582.0)**

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Net financial position was negative at €416.6 million, up by €165.4 million compared to 2018. The increase mainly refers to the positive operating cash generation and the effect of higher dividends received in the year.

Net cash flow from operating activities was positive at €215.8 million, significantly impacted by the earnings component (profit plus non-monetary costs) of €216.3 million, only partly offset by the absorption of liquidity attributable to the change in net working capital (€0.5 million).

The cash flows from investing activities have an overall negative net balance of € 36.2 million, mainly composed of:

- Net purchases of intangible assets (€19.3 million), mainly attributable to the capitalisation of IT costs for the development of software for long-term use, development costs for investments in technological innovation focusing on closed-system coffee machines of the BLUE, FIRMA and A Modo Mio brands, and costs for the maintenance of third-party buildings relating to the renovation of the Turin and Catania facilities;

- Net purchases of property, plant and equipment (€69.3 million), chiefly related to plant, machinery and coffee machines for the Food Service and OCS sectors;

- Net purchases of investments (€106.0 million), mainly attributable to the relinquishment of the financial receivable granted in 2018 for the acquisition of the US division of the Mars group, and the price adjustment for the remaining shares in Nims S.p.A., net of disposals of the investments in Lavazza Eventi S.r.l. and Lea S.r.l. to the Group company Lavazza Entertainment S.r.l, an industrial holding company formed to manage restaurant, entertainment and promotion activities in the coffee business;

- Recapitalisations of investments in subsidiaries (€0.9 million).

OVERVIEW OF THE PARENT COMPANY

The year 2019 saw the integration of the companies acquired from the Mars' Drinks division.
This confirmed the growth in revenues and the margin generation capacity, able to support the promotional and advertising investments necessary for the Group's future.

Sales performance

Organic growth continued (compared to 2018, +4% by volume and +1.3% by value), and was coupled by the contribution of the acquired companies (€+300 million), with the portioned segment growing more rapidly than R&G (compared to 2018, +5.2% and +3.8% by volume, respectively). All channels showed a positive performance (value compared to 2018): Retail +2.2% - OCS/Vending +1.6% - Food Service +0.4%. In line with the strategic plan objectives, foreign markets contributed to the top-line growth (compared to 2018): North America +15% - Eastern Europe +23% - Northern Europe +13%. By contrast, in Italy deflation linked to the raw material trends characterised the market throughout 2019 and is continuing, whereas in France the regulatory change EGALIM (March 2019) strongly limited the use of promotions.

Parent Company's sales in Italy

At Home business

40.8%
SHARE BY VOLUME

In 2019, the Italian coffee market confirmed the trend already seen in the past few years of a decrease in volumes (-3.0% compared to 2018), as a result of the weighted mix of the consolidated trend of the different performance of the moka/traditional segments (-4,6%) and espresso capsules (+20.4%).
The decline by value was lower than the total market decrease (-0.8%), again with opposite performances of the moka/traditional segments (-5.5%) and espresso capsules (+11.3%).
In this context, Lavazza is reinforcing its leading position, increasing its volume share to 40.8% (+0.8 points compared to 2018 and growing for the second consecutive year) and with a 38.3% value share.
The average market price rose by 2.2% compared to 2018, totally generated by the mix in favour of capsules, whereas within the segments deflation pressures continued (moka/traditional segments -1.0%; espresso capsules -6.2%).

Away From Home business

2019 saw Italian AFH sales rise by 1%; in particular, in the Food Service sector the consumption of traditional coffee remained stable (+0.4% compared to 2018), reaching an 8.6% market share by volume; in Italy sales of the OCS /Vending channel rose compared to the previous year (+1%), with large growth in the Roast & Ground segment (+31% by volume) and the FIRMA system (+30% by value).

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Parent Company's international market sales

The positive growth trend of the Parent Company on international markets in terms of turnover continued (+8%) in all the channels where it operates. Significant growth was reported particularly in Eastern European countries, especially in Russia and Poland.

Sales figures of the subsidiaries

At Home business

Foreign markets showed growth of 4% by volume and 2.5% by turnover on a like-for-like consolidation scope and at constant exchange rates.
North America and the United Kingdom recorded excellent performances, with a double-digit growth in turnover. All the other companies reported growth, except the French company Carte Noire which was impacted by the effects of the EGALIM law limiting product promotions.

+4%
GROWTH BY VOLUME

Away From Home business

Sales of the international Away From Home business grew by 4.5% overall on a like-for-like consolidation scope and at constant exchange rates in terms of turnover, driven by the good performance in North America and Germany; the companies acquired from Mars Drinks, now Lavazza Professional, which operate in North America, the UK, France, Germany, Japan in the OCS Vending channel, contributed with a total turnover of €300 million to the Group's result.

RISK MANAGEMENT

The Group relies on an internal control system, based on organisational rules, procedures and structures that allow the business to be run properly and in line with the goals set through an appropriate process for identifying, measuring, managing and monitoring the main risks.
An effective internal control and risk management system serves to safeguard the corporate assets, the efficiency and efficacy of business operations, the reliability of the information supplied to the corporate bodies and the market, and compliance with laws and regulations.

Exchange rate risk

The foreign exchange market and Euro/Dollar in particular were dominated by two major themes: the trade war between China and the United States and the conflicting news about the Brexit developments.
2019 was expected to be the year of "normalisation" for central banks, with the end of Quantitative Easing in Europe and the resumption of US rate hikes.
The trade war tensions and signs of a European slowdown, especially in manufacturing, have led to a sudden change by central banks, which have resumed expansionary manoeuvres.
Euro/Dollar moved in a very narrow range between the high of 1.1543 reached in January and the low of 1.0899 in September. The average annual exchange rate was 1.1194, thus very close to the year-end figure. Volatility was very limited, close to all-time lows.
Currency needs for purchasing the raw material were met primarily through forward purchases, as in previous years, without taking any positions that could be considered of a speculative nature.
To hedge the exchange rate risk arising from the intercompany loan received in USD, two thirds of the notional amount were hedged via cross currency swaps with banking institutions, thus turning it into fixed-rate euro loan.
Significant currency exposures arising from sales in countries with currencies other than the euro were monitored and hedged as part of overall risk management. Also in this case the company did not take any speculative positions.

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Interest rate risk

The central banks of major countries completely disregarded the announcements they had made at the end of 2018.
The ECB applied an initial 10-bps rate cut in September, resumed its quantitative easing programme and invoked fiscal stimulus by European countries, whereas the Federal Reserve made three cuts starting in July for a total of 75 bps.
This drove down the yields on ten-year Treasuries from a high of around 2.805% at the beginning of the year to 1.917% on 31 December, up from a low of 1.458% in September. The Bund displayed a similar trend, falling from a high of 0.262% at the beginning of the year to a yield of -0.185% at the end of December, after reaching an annual low of -0.714% at the end of August.
The inversion of the US rate curve that occurred in March and then partially reversed for several segments starting in October rekindled concerns of a possible recession.
Finally, the ten-year BTP-Bund spread was affected by Italian political affairs, reaching 287 points at the end of May, to then fall back to around 160 points at the end of December.

Commodity price risk

In 2019, the coffee market was characterised by extreme volatility, particularly for the Arabica variety, and by prices that, at least until the autumn, continued the downtrend that had begun many months earlier.
In the first ten months of the year, fundamentals (climate, geopolitics and production) did not diverge greatly from the previous year, and funds maintained, and at times increased, their considerable short positions, a clear sign of their expectations that coffee would be in ample supply.
As in the past, we have to acknowledge that the vast sums poured into commodities markets by speculators mean that transactions of the opposite sign by traditional participants (roasters, international traders and coffee-growing countries) are unable to offset their effects.
In October, in response to news of a possible modest shortage of Arabica in the coming months and of a reduction in inventories of certified coffee, speculators began to pare back their short positions, triggering a swift, uncontrolled rebound that propelled the New York exchange back to historically attractive levels.
The Robusta market followed, although with less enthusiasm.
Turning to a thorough price analysis, the New York exchange opened the year at 103 cents/lb (second position). It then moved between an annual low of 88 cents/lb at the beginning of May to 139 cents/lb on 16 December, to close the year at 132 cents/lb.
The London exchange opened the year at 1,530 USD/t and reached an annual peak at 1,578 on 4 February, again for the second position; the annual low was reached on 17 October with 1,227 USD/t and the year ended at 1,382 US$/t.
At the level of production, the Brazilian harvest — in a negative cycle, although sound farming practices have reduced its effects — is estimated to amount to 58-59 million bags, with Robusta quality at 19 million, marking a constant, significant recovery.
In high production cost countries, such as those of Central America, such low prices have been extremely critical. By contrast, in Brazil, due to the depreciation of the local currency against the dollar, at large, efficiently managed plantations growers succeeded in maintaining sound margins. Columbia returned to steady levels of nearly 14 million bags of excellent quality, sold at higher prices than similar qualities from Central America; in this country as well, depreciation helped producers.
The Vietnamese harvest is stably at around 30 million bags — almost all of which are exported — for several years, and Indonesia is also stable at around 12 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 and significant logistic difficulties.
The new year began with prices declining sharply for Arabica, which shifted from 130 cents/lb at the beginning of the period to the current 103.
The decline was more modest, and the trend more clearly defined, in London, which fell from 1,380 USD/t at the beginning of January to the current 1,300 USD/t.
There is no significant news from the main coffee-growing countries where we source our coffee.

Credit risk

At Luigi Lavazza S.p.A., despite the adjustment of payment terms to support the increase in business in the out-of-Italy market, average collection times remained essentially unchanged, thanks in part to the launch of factoring for former Auchan stores. Attention should be drawn to the constant focus on hedging foreign credit risk, which rose from 72% to 80% of sales, accompanied by a decline in costs.
At the Group level, we are seeing a significant improvement in DSO, due in part to the inclusion of Lavazza Professional companies into the consolidation area.

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LAVAZZA'S COMMITMENT TO THE SOCIAL AND ENVIRONMENTAL SUSTAINABILITY OF ITS ACTIVITIES

The Lavazza Group has always been 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 are the pillars of Lavazza's approach to doing business. This approach has allowed the Company to organise a programme of coordinated initiatives in Italy and in the countries where it operates, in order to promote the integration of sustainability in all areas of the business.
In 2017, to provide a clearer framework and guidance for its sustainability efforts, Lavazza decided to participate in the United Nations Global Compact embracing the Sustainable Development Goals promoted by the United Nations as part of its 2030 Agenda. The challenges posed by the UN are addressed to everyone, including the business world. It is for this reason that Lavazza decided to accept this proposal adopting the Goals as guidelines for its own sustainability approach and setting itself a further goal: Goal Zero, i.e. using its own power of communication to disseminate the United Nations messages, engaging its stakeholders in the commitment for a sustainable future.

2019: the four priority goals

After analysing the 169 targets proposed by the United Nations and studying how Lavazza's business activities can influence their achievement, in 2019 the Company sought to identify the sustainable development goals that are a priority for the Group:
- Goal 5 "Gender Equality"
- Goal 8 "Decent Work and Economic Growth"
- Goal 12 "Responsible Consumption and Production"
- Goal 13 "Climate Action"

This decision was based on a thorough analysis and involves the pursuit of the four priority goals through actions, initiatives and programmes that also have effects on the other 2030 Agenda goals and that will be achieved, in Lavazza's typical style, through public-private partnerships, and thus while also pursuing goal 17, "Partnerships for the Goals". The details of the analysis performed and the specific programmes designed to achieve the goals will be further explored in the 2019 Sustainability Report "A Goal in Every Cup".
In order to spread the sustainability goals to the entire Group and coordinate activities and projects, Lavazza has also created the Institutional Relations & Sustainability Network, consisting of sustainability ambassadors, one from each Group subsidiary, who met for the first time in October to lay down common lines of action for the Group.
The Company also intends to share its values with its suppliers and customers. Indeed, these values can only be fully realised if they are also shared by all partners and pursued in all day-to-day activities. This is the context for relations with suppliers and customers based on sharing and integration of the ethical, social and environmental values set out in the Supplier Code of Conduct and Code of Ethics, designed to strengthen active collaboration in pursuit of common goals.

Lavazza's commitment to the community

Thanks to its community engagement programme, Lavazza is engaged in active dialogue with local institutions and foundations to achieve projects benefiting and protecting the communities and areas in which the Company has its offices and production facilities.
This emphasis on values made it possible to engage schools and citizens' associations, giving rise to projects such as A.A.A. (Accoglie, Avvicina, Accompagna – Welcome, Engage and Support), in which Lavazza, in collaboration with other partners, acts directly on the fabric of the communities in which it operates. In particular, this project seeks to create new job opportunities for individuals facing adversity by providing coffee-related training, through the dedication, knowledge and professionalism of Lavazza's trainers.
In addition, in partnership with the City of Turin, Lavazza concluded phase one of "TOward2030: What Are You Doing?", a project designed to raise awareness of the 2030 Agenda using the language of street art to get the city's walls talking about sustainability.
Eighteen international street artists and as many works spread throughout Turin, representing the 17 goals plus one: Goal Zero, designed by Lavazza and executed by E. Zacharevic, dedicated to spreading awareness of the sustainable development goals

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Environmental Sustainability

Lavazza continued with its commitment to the environmental sustainability of its own products, with an innovative approach that is continually updated. The first guideline has been published for calculating the environmental impacts of the espresso beverage, defined together with other Italian companies within the Italian Coffee Committee and with a pre-competitive approach, in the EPD® system, so that the beverage can be distinctively recognised and a shared scientific method defined for analysing its environmental profile.
The challenge represented by the ISO standards for the environmental management systems was ambitious. It required a "Life Cycle Perspective" to be adopted to identify, evaluate and manage the environmental aspects associated with the organisation's production processes, products and services and hence the related environmental impacts.

Cooperating with coffee communities: the work of the Lavazza Foundation

Each year, the Company supports the projects of the Giuseppe and Pericles Lavazza no-profit Foundation, established in 2004, which continues to operate in coffee-producing countries and to support cooperation projects focussing on economic and social development of the producing communities and especially promoting the environmental sustainability of coffee production.
To date, the Foundation finances and cooperates in more than 25 projects in 17 coffee-producing countries. Training for good agricultural practices, adapting and combating climate change, supporting young people and empowering women, is aimed primarily at communities of small coffee growers. Field projects are implemented by local organisations such as foundations, public bodies or non-governmental organisations. The Foundation funds projects in partnership with other public and private donors, believing in the leverage of co-financing and intervening in the design and monitoring phases of the projects.
The Group is constantly evolving and has embarked on a strategic sustainability process, motivated by the conviction that increasingly deep integration between economic growth, social inclusion and environmental protection is the only paradigm capable of creating shared value.

LAVAZZA'S HEALTH, WORKPLACE SAFETY, ENERGY AND ENVIRONMENT MANAGEMENT SYSTEM

Within the framework of the implementation of the Group's HSE (Health, Safety and Environment) Guidelines and the Corporate Workplace Health and Safety Policy, Lavazza continued to implement an Integrated Health, Workplace Safety, Energy and Environment Management System (SG-SSEA), in line with the ISO 14001, ISO 50001 and ISO 45001 standards of reference. The Health, Safety, Energy and Environment Management System (SG-SSEA) is coordinated by the HSE Department and managed through a company portal.
During the year, Luigi Lavazza S.p.A. obtained the ISO 14001:2015 environmental certification; this important milestone extends to the Nuvola headquarters, Innovation Center and the plants in Turin, Gattinara (Vercelli) and Pozzilli (Isernia). With regard to Environmental Management System, the working group coordinated by the HSE Department identified, analysed and assessed the environmental impacts associated with over 170 processes (upstream, core and downstream), from coffee-growing to disposal of the finished product.
The ISO 14001:2015 (Environmental Management System) and OHSAS 18001:2007 (Occupational Health and Safety Management System) certifications for the French Carte Noire Operations S.a.s. plant in Lavérune were also renewed during the period.
Within the framework of the system, a full cycle of HSE internal audits was conducted, involving the Headquarters, the Innovation Center, the Italian plants and French Lavérune plant, and several logistics partners. The findings of the audit confirmed that the risk assessment documents are up to date, in accordance with Legislative Decree 81/2008.
In supplier qualification, the first HSE requirements were introduced as an integral part of sustainability requirements.
The Company applied for and was awarded the appropriate extensions of its environmental permits required for the use of its production facilities.
The Company also performed an energy assessment of its new headquarters and updated that for the Pozzilli facility, which it then sent to the government agency ENEA together with those already available for the Turin and Gattinara plants, in accordance with Legislative Decree No. 102/2014.
In occupational health and safety, no serious accidents occurred and the number of occupational accidents continued to decline.

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RELATIONSHIP WITH PERSONNEL

The headcount at 31 December 2019 numbered 4,022, split as follows:

CATEGORIES	DECEMBER 2018	DECEMBER 2019
Executives	219	232
Middle managers	571	577
White collars	1,719	1,936
Blue collars	1,327	1,277
Total	**3,836**	**4,022**

The Group's personnel costs for 2019 closed with an overall increase of about 7% compared with the previous year on a like-for-like consolidation area, without considering Lavazza Professional and extraordinary allocations to the provision.
The Headquarters of the Parent Company recorded the same rate of increase compared to the previous year, chiefly due to new personnel recruited to strengthen some functions in support of the Group's internationalisation strategy. Worthy of notice for example is the new organisation of the Supply Quality & Customer Care unit and the strengthening of the R&D structure; moreover, following the change in some commercial strategies, it was necessary to resume a direct presence on some Eastern European markets.
The increase in cost was also due to normal salary dynamics, tied to contractual renewals and the annual salary review process. The 2019 figure reflects the extraordinary provision for the payment of company productivity bonuses in view of the achievement of the Group's financial performance and financial position objectives.
With regard to foreign subsidiaries, significant cost increases were recorded primarily in the strategic markets (France: +4%; United States: +17%; Australia: +11%; and the UK +9%), 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.

RESEARCH AND DEVELOPMENT

In 2019, research and development activities achieved important results in the area of projects related to sustainability and the development of new products.
Production of a new line of coffee machines dedicated to the U.S. market capable of dispensing espresso, coffee-based and filter-coffee beverages began during the year.
In product development, Oro Altura blends were developed for both the Roast & Ground sector and A Modo Mio capsules, in addition to the ¡Tierra! Colombia blend for the food service market.
There was no lack of innovation in the product packaging field to meet the market's recent needs in chromatic and format terms, yet the bulk of efforts were focused on developing sustainable materials that ensure the same quality with a reduced environmental impact.
On the U.S. market, filter beverage capsules were launched, along with a cold coffee-based beverage in collaboration with Pepsi, while in Europe self-protecting compostable capsules began to be marketed.
During the year the Company, with its scientific research office, became a member of the Contaminants Committee, the arm of the European Coffee Federation responsible for matters relating to natural and process contaminants. Studies on the correlation between the chemical composition of the volatile fraction of coffee and the beverage's sensory properties resulted in the publication of a scientific article titled "HS-SPME-MS-Enose Coupled with Chemometrics as an Analytical Decision Maker to Predict In-Cup Coffee Sensory Quality in Routine Controls: Possibilities and Limits" on the magazine Molecules.

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MAIN GROUP COMPANIES

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

Main 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 (Great Britain) - Sales amounted to GBP 77 million, up compared to the previous year. All channels continued to grow thanks to the consolidation of the products launched in previous years.

Lavazza Deutschland G.m.b.H. (Germany) - Sales amounted to €182.2 million, up compared to the previous year as a result of the good performance both the At Home and Away From Home channels.

Lavazza France S.a.s. (France) - Sales amounted to €117.1 million, up compared to the previous year.

Lavazza Kaffee G.m.b.H. (Austria) - Sales amounted to €13.7 million, in line with the previous year.

Lavazza Sweden SA - Sales amounted to SEK 169 million, with a positive net result of SEK 4.9 million.

Merrild Kaffe ApS (Denmark) - Sales amounted to DKK 391.8 million, up compared to the previous year.

Lavazza Australia Pty Ltd. (Australia) and Lavazza Australia OCS - The companies operate in Australia, where they distribute Lavazza products in both the At Home and Food Service channels. Sales were approximately AUD 79 million, with a fair increase in the At Home channel.

Lavazza Netherlands B.V. (The Netherlands) - Formed in 2007 as investment holding company, it currently holds the investment in the Indian company Fresh & Honest Café Ltd.

Lavazza Premium Coffees Corp. (United States) - Sales totalled USD 136.6 million, up on the previous year, particularly in the Away From Home channel.

Fresh & Honest Café Ltd. (India) - The company, which primarily operates in the Vending segment, reported sales of INR 1,455 million.

Carte Noire S.a.s. (France) - The company distributes Carte Noire-branded and Lavazza-branded products in the retail sector in France; its sales amounted to €456 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 €20.3 million in 2019.

Kicking Horse Coffee Co. Ltd. (Canada) - The company, a leading Canadian distributor of organic and fair-trade coffee products, has stood out in Canada and the United States thanks to its impressive growth in recent years. In 2019, it recorded sales of CAD 61.8 million.

Lavazza Professional UK Ltd. - Sales amounted to GBP 87 million. The performance for the year reflected the investments in products, brands, processes and customer relations.

Lavazza Professional Germany G.m.b.H. (Germany) - Sales amounted to €68.9 million. The company operates in the OCS segment.

Lavazza Professional Japan GK (Japan) - Sales amounted to YEN 907.2 million.

Lavazza Professional North America LLC - Sales amounted to USD 159 million in the OCS segment.

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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 return of its investments.

Cofincaf S.p.A. - The company, which provides financial support to customers in the Vending and Food Service sectors, recorded financial transactions for a total amount of €46.0 million at 31 December 2019 (€45.4 million in 2018). The increase in financing chiefly concerned the Vending sector in Italy.

Nims S.p.A. - The company specialises in distribution and direct door-to-door sale of coffee capsules and coffee machines throughout Italy. Sales amounted to €106.1 million, up compared to the previous year.

Lavazza Professional Holding Europe S.r.l. - This is the holding company that holds the European Lavazza Professional companies.

Treasury shares / shares of holding companies

The Parent Company Luigi Lavazza S.p.A owns 2,499,998 treasury shares worth €1 each.
The Parent Company does not own and, during the financial year it did not buy and/or sell, any share of the Holding Company either directly or through a trust company or other persons.
The Parent Company did not establish secondary offices in 2019.
Luigi Lavazza S.p.A., and the Italian Group companies together with their parent/consolidating company, Finlav S.p.A., participated for the three-year period 2017-2019 in the Italian tax consolidation programme.
With regard to compliance with privacy legislation, the Company has conducted assessments in view of compliance with the provisions of Regulation (EU) No. 2016/679 on the protection of natural persons with regard to the processing of personal data.

Information on management and coordination activities

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

OUTLOOK

The current scenario, severely conditioned by the ongoing health emergency, makes it difficult to predict what will happen in the coming months at the macroeconomic level. The Group is taking a pro-active, concrete approach to this uncertain, unprecedented situation, on the strength of the results it recorded in the year that has just come to an end and of its solid capital structure.
Following the spread of the Covid-19 epidemic, the Group immediately took all measures necessary to ensure the greatest possible safety for its employees, customers, suppliers and consumers and is ultimately confident that the concrete, immediate contributions made by the Group along with many other Italian entrepreneurs and companies will make it possible to recover from the emergency and gradually return to normal.

The Chairman of the Board of Directors
Alberto Lavazza

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LAVAZZA GROUP
Consolidated Financial Statements at 31 December 2019

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ACCOUNTING STATEMENTS

Consolidated Statement of Financial Position

€ thousand	NOTES	31.12.2019	31.12.2018
Goodwill	10.1	956,845	1,060,188
Other intangible assets	10.2	464,217	372,734
Rights of use	10.3	162,064	0
Property, plant and equipment	10.4	610,018	674,028
Investments in other companies	10.5	24,232	23,674
Non-current financial assets	10.6	53,071	53,276
Deferred tax assets	10.7	61,237	58,735
Other non-current assets	10.8	4,331	4,323
Total non-current assets		**2,336,015**	**2,246,958**
Inventories	10.9	369,305	361,620
Trade receivables	10.10	306,623	308,811
Current tax receivables	10.11	13,997	23,911
Other current assets	10.8	106,155	122,595
Current financial assets	10.6	208,148	225,117
Cash and cash equivalents	10.12	637,147	595,313
Total current assets		**1,641,375**	**1,637,367**
Assets held for sale		5,247	0
TOTAL ASSETS		3,982,637	3,884,325
Share capital	10.13	25,000	25,000
Reserves	10.13	2,239,560	2,151,900
Profit for the year		126,608	87,619
Equity attributable to the Group		**2,391,168**	**2,264,519**
Equity attributable non-controlling interests	10.13	2,521	2,761
Profit (loss) for the year attributable to non-controlling interests		774	313
TOTAL EQUITY		2,394,463	2,267,593
Non-current financial liabilities	10.14	508,071	720,658
Right-of-use liabilities - non current	10.15	121,888	0
Provisions for employee benefits	10.16	86,314	79,421
Provisions for future risks and charges	10.17	78,613	57,328
Deferred tax liabilities	10.7	77,921	62,453
Other non-current liabilities	10.20	171	365
Total non-current liabilities		**872,978**	**920,225**
Current financial liabilities	10.14	177,996	144,336
Right-of-use liabilities - current	10.15	15,594	0
Trade payables	10.19	367,804	365,577
Provisions (current portion)	10.17	25,059	24,721
Current tax payables	10.18	2,207	6,849
Other current liabilities	10.20	126,536	155,024
Total current liabilities		**715,196**	**696,507**
TOTAL LIABILITIES		3,982,637	3,884,325

Consolidated Statement of Profit or Loss

€ thousand	NOTE	YEAR 2019	YEAR 2018
Net revenues	11.1	2,199,690	1,870,003
Cost of sales	11.2	(1,299,210)	(1,138,308)
GROSS PROFIT		900,480	731,695
Promotional and advertising costs	11.3	(205,025)	(197,660)
Selling costs	11.4	(192,566)	(177,334)
General and administrative expenses	11.5	(284,536)	(200,896)
Research and development costs	11.6	(17,358)	(9,019)
Other operating income (expense)	11.7	(34,839)	(26,943)
OPERATING PROFIT		166,156	119,843
Non-recurring income (expense)	11.7	(10,133)	(9,138)
PROFIT BEFORE THE FINANCIAL COMPONENT AND TAXES		156,023	110,705
Financial income (expense)	11.9	(288)	5,669
Dividends and results from investments	11.9	99	163
PROFIT BEFORE TAXES		155,834	116,537
Income taxes for the year	11.10	(28,452)	(28,605)
PROFIT (LOSS) FROM CONTINUING OPERATIONS		127,382	87,932
Profit/(loss) from discontinued operations		0	0
PROFIT (LOSS) FOR THE YEAR		127,382	87,932
PROFIT (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		774	313
PROFIT (LOSS) ATTRIBUTABLE TO THE GROUP		126,608	87,619

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Consolidated Statement of Comprehensive Income

€ thousand	YEAR 2019	YEAR 2018
PROFIT (LOSS) FOR THE YEAR	127,382	87,932
Other components of comprehensive income that will be subsequently reclassified to profit / loss for the year (net of taxes):		
Translation differences of foreign financial statements	13,665	(7,081)
(Loss)/gain from hedging derivatives (cash flow hedge)	21,924	(13,092)
(Loss)/gain from securities	5,531	52
Other components of comprehensive income that will be subsequently reclassified to profit/(loss) for the year, net of taxes	**41,120**	**(20,121)**
Other components of comprehensive income that will not be subsequently reclassified to profit / loss for the year (net of taxes):		
(Loss)/gain from revaluation of defined benefit plans	(5,847)	(276)
Other components of comprehensive income that will not be subsequently reclassified to profit/(loss) for the year, net of taxes	**(5,847)**	**(276)**
TOTAL COMPONENTS OF OTHER COMPREHENSIVE INCOME, NET OF TAXES	35,273	(20,397)
TOTAL PROFIT/(LOSS) OF COMPREHENSIVE INCOME, NET OF TAXES	162,655	67,535
ATTRIBUTABLE TO:		
Equity holders of the Parent	161,879	67,704
Non-controlling interests	777	(169)

Consolidated Statement of Cash Flows

€ thousand	YEAR 2019	YEAR 2018
NET PROFIT	127,382	87,932
Income taxes	28,452	28,520
Financial expense/(income)	8,948	(2,533)
Value adjustments to financial assets/liabilities	770	(8,522)
RESULT BEFORE TAXES, INTEREST AND ADJUSTMENTS TO FINANCIAL ASSETS	**165,552**	**105,397**
(Gains) losses from disposal of assets	1,305	744
Additions to provisions, employee benefits and other non-monetary components	50,887	50,237
Amortisation, depreciation and write-downs	144,559	87,237
RESULT ADJUSTED FOR NON-MONETARY COMPONENTS	**362,303**	**243,615**
Change in trade receivables	4,370	34,961
Change in inventories	(6,198)	22,660
Change in trade payables	(18,189)	(541)
Change in other receivables/payables	3,269	(3,728)
CASH FLOW AFTER CHANGES IN NET WORKING CAPITAL	**345,555**	**296,967**
Taxes paid	(25,131)	(10,183)
Use of provisions and indemnities paid	(28,923)	(19,813)
Interest and dividends collected, interest (paid)	(8,948)	**2,534**
CASH FLOWS FROM OPERATING ACTIVITIES	**282,553**	**269,505**
Purchases of property, plant and equipment	(134,119)	(85,839)
Purchases of intangible assets	(22,875)	(14,835)
Change in current financial assets	37,539	141,240
Change in non-current financial assets	(414)	(3,142)
Change in derivaties	15,965	(1,148)
Disposals (Acquisitions)	14,606	(545,963)
CASH FLOWS FROM INVESTING ACTIVITIES	**(89,298)**	**(509,687)**
New bank loans and payables	0	410,618
Net reimbursement of bank loans and payables	(95,109)	(90,257)
Net reimbursement of right-of-use liabilities	(14,100)	0
Dividends paid	(35,657)	(77,157)
CASH FLOWS FROM FINANCING ACTIVITIES	**(144,866)**	**243,204**
Changes in equity	0	0
Exchange rate effect	(6,555)	(1,276)
CASH FLOWS GENERATED (USED)	**41,834**	**1,746**
Cash and cash equivalents at year-start	**595,313**	**593,567**
Cash and cash equivalents at year-end	**637,147**	**595,313**

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Consolidated Statement of Changes in Equity

MOVEMENTS IN EQUITY	SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	OTHER CAPITAL RESERVES	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	RESERVE FOR ADJUSTMENTS TO EMPLOYEE BENEFITS	RESERVE FOR FVOCI FINANCIAL INSTRUMENTS	RESERVE FOR TRANSLATION DIFFERENCES	FTA RESERVE	EQUITY ATTRIBUTABLE TO THE GROUP	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at 1 January 2019	25,000	224	(17,733)	628,235	1,569,789	(15,750)	933	1,663	(11,218)	83,376	2,264,519	3,074	2,267,593
Profit for the year					126,608						126,608	774	127,382
Other components of comprehensive income						21,937	(5,844)	5,531	13,645		35,269	3	35,272
Total comprehensive profit/(loss) for the year	25,000	224	(17,733)	628,235	1,696,397	6,187	(4,911)	7,194	2,427	83,376	2,426,396	3,851	2,430,247
Option rights											0		0
Payment of dividends					(35,100)						(35,100)	(556)	(35,656)
Reclassifications - other movements					(172)	34	10				(128)		(128)
Balance at 31 December 2019	25,000	224	(17,733)	628,235	1,661,125	6,221	(4,901)	7,194	2,427	83,376	2,391,168	3,295	2,394,463

MOVEMENTS IN EQUITY	SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	OTHER CAPITAL RESERVES	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	RESERVE FOR ADJUSTMENTS TO EMPLOYEE BENEFITS	RESERVE FOR FVOCI FINANCIAL INSTRUMENTS	RESERVE FOR TRANSLATION DIFFERENCES	FTA RESERVE	EQUITY ATTRIBUTABLE TO THE GROUP	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at 1 January 2018	25,000	224	(17,733)	623,645	1,559,120	(2,658)	1,209	1,611	(4,060)	83,376	2,269,734	2,821	2,272,555
Profit for the year					87,619						87,619	313	87,932
Other components of comprehensive income						(13,092)	(276)	52	(7,158)		(20,474)	77	(20,397)
Total comprehensive profit/(loss) for the year	25,000	224	(17,733)	623,645	1,646,739	(15,750)	933	1,663	(11,218)	83,376	2,336,879	3,211	2,340,090
Option rights				4,590	0						4,590		4,590
Payment of dividends					(77,157)						(77,157)		(77,157)
Reclassifications - other movements					207						207	(137)	70
Balance at 31 December 2018	25,000	224	(17,733)	628,235	1,569,789	(15,750)	933	1,663	(11,218)	83,376	2,264,519	3,074	2,267,593

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. COMPANY INFORMATION

The publication of the Consolidated Financial Statements of Luigi Lavazza S.p.A. (the Parent Company) for the year ended 31 December 2019 has been authorised by the Board of Directors on 25 March 2020. Luigi Lavazza S.p.A. is a company limited by shares registered and domiciled in Europe. The registered office is in Turin, via Bologna 32.
Luigi Lavazza S.p.A. and its investee companies are directly and indirectly controlled by Finlav S.p.A., with registered office in Turin, Via Bologna 32.
The Lavazza Group produces and distributes coffee in Italy and internationally under its own brand and other leading industry brands (Carte Noire, Merrild and Kicking Horse Coffee).
The Lavazza Group's Consolidated Financial Statements at and for the year ended 31 December 2019 have been prepared on a going-concern basis.

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2. ACCOUNTING STANDARDS

2.1 Principles of Preparation of the Consolidated Financial Statements

The Group's Consolidated Financial Statements at 31 December 2019 were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. IFRS are also meant to include all revised international accounting standards (IAS) and all the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) previously known as Standing Interpretation Committee (SIC).

The Consolidated Financial Statements have been prepared on a cost basis, taking account of impairment, where appropriate, with the exception of derivative financial instruments and new acquisitions, which have been accounted for at their fair value, unless IFRS permit a different basis of measurement.
The Consolidated Financial Statements at and for the year ended 31 December 2019 have been prepared by treating the business as a going concern, inasmuch as it may reasonably be expected that the Company will continue to operate for the foreseeable future.
The carrying amounts of assets and liabilities subject to fair value hedging transactions, which would otherwise be measured at cost, have been adjusted to take account of the changes in fair value attributable to the hedged risk.

The Consolidated Financial Statements have been presented in euro and all values have been rounded to thousands of euro, unless otherwise indicated.

The financial statements of consolidated subsidiaries have been prepared in reference to the same reporting period, adopt the same accounting principles as the Parent Company and have been included in the Consolidated Financial Statements from the date on which the Group acquires control until the moment such control ceases to exist. Where the Group loses control of a subsidiary, the Consolidated Financial Statements include the subsidiary's performance in proportion to the period in which the Group exercised control.
Any non-controlling interests in the equity and reserves of subsidiaries and non-controlling interests in the profit or loss for the year of consolidated subsidiaries are separately presented in the consolidated statement of financial position and consolidated statement of profit or loss.

2.2 Consolidated Accounting Statements

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

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

All other assets are classified as non-current.
A liability is classified as current when:

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

The Group classifies all other liabilities as non-current.
Deferred tax assets and liabilities are classified as non-current assets and liabilities.

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3. CONSOLIDATION AREA AND CHANGES

The Consolidated Financial Statements include the financial statements at and for the year ended 31 December 2019 of Luigi Lavazza S.p.A., the Parent Company, and the subsidiaries for which Luigi Lavazza S.p.A. has the power to direct the relevant activities of the company and is exposed to the variability of their performance.
The consolidation area at 31 December 2019 has changed compared with the previous year as a result of the following transactions:

- Inclusion of the company Immobiliare I.N.N.E.T. S.r.l. in the consolidation area effective 1 January 2019. The company is 100% controlled by the Parent Company;
- Exclusion from the consolidation area of Lea S.r.l. and Lavazza Eventi S.r.l, which have been included, effective 1 January 2019, in the Finlav Group, whose parent company Finlav S.p.A controls Luigi Lavazza S.p.A.

The following table provides a detail of consolidated companies, associates and other minor investees.

COMPANY NAME	REGISTERED OFFICE		SHARE CAPITAL	% HELD DIRECTLY	% HELD INDIRECTLY	% HELD BY THE GROUP
PARENT COMPANY:						
Luigi Lavazza S.p.A.	Turin	Eu	25,000,000	-	-	-
COMPANIES CONSOLIDATED USING THE LINE-BY-LINE METHOD:						
NIMS S.p.A.	Padua	Eu	3,000,000	97.33	-	100
Lavazza France S.a.s.	Boulogne	Eu	21,445,313	100	-	100
Carte Noire S.a.s.	Boulogne	Eu	103,830,406	100	-	100
Carte Noire Operations S.a.s.	Lavérune	Eu	28,523,820	-	100	100
Lavazza Kaffee G.m.b.H.	Vienna	Eu	218,019	100	-	100
Lavazza Deutschland G.m.b.H.	Frankfurt	Eu	210,000	100	-	100
Lavazza Premium Coffees Corp.	New York	Usd	30,800,000	93	-	93
Kicking Horse Coffee Co. Ltd	Invermere	Cad	214,994,202	80	-	80
Lavazza Coffee (UK) Ltd	Uxbridge	Gbp	1,000	100	-	100
Lavazza Spain S.L.	Barcelona	Eu	1,090,620	100	-	100
Lavazza Sweden AB	Stockholm	Sek	100,000	100	-	100
Lavazza do Brasil Ltda	Rio de Janeiro	BRL	77,097,753	99.53	0.47	100
Cofincaf S.p.A.	Turin	Eu	3,000,000	99	-	99
Lavazza Netherlands B.V.	Amsterdam	Eu	111,500,000	100	-	100
Fresh & Honest Café Ltd	Chennai	Inr	73,414,000	-	99.99	99.99
Lavazza Argentina SA	Buenos Aires	Ars	10,468,283	97.54	2.46	100
Almada Comercio de Café Ltda	Sao Paulo	BRL	1,000,800	-	100	100
Lavazza Australia Pty Ltd	Hawthorn	Aud	7,310,600	100	-	100
Lavazza Capital S.r.l.	Turin	Eu	200,000	100	-	100
Merrild Kaffe ApS	Middelfart	Dkk	50,000	100	-	100
Merrild Baltics SIA	Line	Eu	2,828	-	100	100
Lavazza Professional France	Roissy en France	Eu	279,706	-	100	100
Lavazza Professional North America LLC	Wilmington, Delaware	USD	n.a.	-	100	100
Lavazza Professional Holding North America Inc	Wilmington, Delaware	USD	1	100	-	100
Lavazza Professional UK Limited	Basingstoke	Gbp	34,084,001	-	100	100
Lavazza Professional Germany GmbH	Verden	EU	50,000	-	100	100
Lavazza Professional Japan GK	Tokyo	JpY	1,000	-	100	100
Lavazza Australia OCS Pty Ltd	Mulgrave	Aud	3,000,000	-	100	100
Real Estate I.N.N.E.T. Srl	Turin	Eu	30,000	100	-	100
Lavazza Professional Holding Europe S.r.l.	Turin	Eu	1,000,000	100		100
OTHER INVESTMENTS						
Lavazza Maroc S.a.r.l.	Casablanca	MAD	10,000	100	-	100
Lavazza Trading (Shenzhen) Co. Ltd	Shenzhen	CNY	8,201,500	100	-	100
International Coffee Partners G.m.b.H.	Hamburg	Eu	175,000	20	-	20
INVESTMENTS VALUED AT FAIR VALUE:						
INV. A.G. S.r.l.	Milan	Eu	207,637,307	10.61	-	6.09
Clubitaly S.p.a.	Milan	Eu	103,300	4.12	-	4.12
Connect Ventures One LP	London	Gbp	n.a.	2.53	-	2.53
Casa del Commercio e Turismo S.p.A.	Turin	Eu	114,700	-	3	3
Air Vallée S.p.A.	St. Christopher	Eu	6,000,000	2	-	2
Tamburi Investment Partners S.p.A.	Milan	Eu	76,853,716	0.39	-	0.93
Building 3 F (formerly Le Foyer du Fonctionnaire)	Paris	Eu	46,552,000	n.a.	-	n.a.
Idroelettrica S.c.r.l.	Aosta	Eu	50,000	0.1	-	0.1

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4. CONSOLIDATION CRITERIA

The Consolidated Financial Statements include the financial statements of Luigi Lavazza S.p.A. and its subsidiaries at 31 December 2019. Control is obtained when the Group is exposed or entitled to variable returns arising from its relationship with the investee entity, together with the ability to influence such returns by exercising its power over the said entity.
Specifically, the Group controls an investee if it has all the following:

- power over the investee, that is to say, the ability to direct the relevant activities of the investee, i.e., the activities that significantly affect the investee's returns;
- exposure or rights to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect the amount of the investor's returns.

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

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

Consolidation of an investee begins from the date the Group obtains control of the investee and ceases when the Group loses control of the investee. Assets, liabilities, revenues and costs of the subsidiary acquired or disposed of during the year are included in the Consolidated Financial Statements from the date the Group obtains control until the date the Group no longer has control over the subsidiary.
All subsidiaries are consolidated using the line-by-line method. According to this method, the consolidated entities' assets, liabilities, income and expenses are incorporated into the consolidated financial statements line by line. The carrying amount of the equity investments is derecognised together with the corresponding share of the investees' equity, attributing each asset and liability its current value at the date of acquisition of control. Any residual difference, where positive, is taken to goodwill; where negative, it is taken to the statement of profit or loss.
When preparing the Consolidated Financial Statements, all elements of assets and liabilities, income and expenses and cash flows between Group entities are eliminated, along with unrealised gains and losses on intra-Group transactions.
All assets and liabilities of foreign entities in currencies other than the euro that fall within the scope of consolidation are translated at the spot exchange rates at the reporting date (current exchange rate method), whereas the related revenues and costs are translated at the average exchange rates for the year. Exchange differences on the translation of foreign operations arising from this method are classified in Equity.
The profit (loss) for the year and all other components of other comprehensive income are attributed to the shareholders of the parent company and minority interests, even if this entails that minority interests have a negative balance. Where necessary, the financial statements of the subsidiaries are adjusted as appropriate in order to ensure compliance with the Group's accounting policies. All intra-Group assets and liabilities, equity, revenues, costs and cash flows relating to transactions between Group entities are fully eliminated during the consolidated process.

Changes in the percent interest in a subsidiary that do not entail a loss of control are accounted for using the equity method.
The Consolidated Financial Statements are presented in euro, the functional and presentation currency adopted by the Parent Company. Each Group entity determines its own functional currency, which is used to measure the items included in the individual financial statements. The Group adopts the direct consolidation method. The amount that arises from the use of this method is represented by the gain or loss reclassified to the statement of profit or loss when a foreign subsidiary is disposed of.

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

CURRENCY	2019 AVERAGE EXCHANGE RATE	2019 YEAR-END	2018 AVERAGE EXCHANGE RATE	2018 YEAR-END
US Dollar	1.12	1.12	1.18	1.45
Pound Sterling	0.88	0.85	0.89	0.89
Brazilian Real	4.41	4.52	4.31	4.44
Swedish Krona	10.59	10.45	10.26	10.25
Indian Rupee	78.83	80.19	76.61	79.73
Australian Dollar	1.61	1.60	1.58	1.62
Danish Krone	7.47	7.47	7.45	7.47
Canadian Dollar	1.49	1.46	1.53	1.56
Japanese Yen	122.02	121.94	130.4	125.85
Argentine Peso (*)	67.27	67.27	43.16	43.16

(*): Companies in hyperinflation; we applied average exchange rate, identical to the year-end exchange rate, pursuant to IAS 29.

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5. MAIN PRINCIPLES USED FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

Business combinations and goodwill

Business combinations are recognised in accordance with IFRS 3, using the acquisition method. The cost of an acquisition is determined as the sum of the consideration transferred, measured at its acquisition date fair value, and the amount of the minority interest in the acquiree. For each business combination, the Group determines whether to measure the minority interest in the acquiree at fair value or in proportion to the minority interest share of the acquiree's identifiable net assets. Acquisition costs are expensed during the year and classified as administrative expenses.
When the Group acquires a business, it classifies or designates the financial assets acquired or the liabilities assumed in accordance with the contractual terms, economic conditions and other relevant conditions in effect at the acquisition date.
Any contingent consideration to be paid is recognised by the acquirer at its acquisition date fair value.
Goodwill is initially recognised at cost, represented by the amount by which the sum of the consideration paid and amount recognised for minority interests exceeds the identifiable net assets acquired and liabilities assumed by the Group. If the fair value of the net assets acquired exceeds the consideration, the difference (gain) is taken to the statement of profit or loss. Any ancillary costs related to the business combination are recognised through profit or loss.
After initial recognition, goodwill is not amortised, but measured at cost, net of cumulative impairment losses. For impairment-testing purposes, the goodwill acquired in a business combination is allocated at the acquisition date to each cash-generating unit of the Group that is expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquiree are assigned to the units concerned.
If goodwill has been allocated to a cash-generating unit, and the entity disposes of part of the unit's assets, the goodwill associated with the asset disposed of is included in the carrying amount of the asset when determining the gain or loss on disposal. The goodwill associated with the asset disposed of is determined on the basis of the values of the asset disposed of and the retained portion of the cash-generating unit.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence means the power to participate in the financial and operating policy decisions but not to control them.
The Group's investments in associates are measured using the equity method.
The associate's goodwill is included in the accounting value of the investment and is not subject to a separate impairment test.
Following the application of the equity method, the Group assesses whether it is necessary to recognise impairment of its equity interest in the associates the difference between the recoverable amount and carrying amount of the associate.
When the Group ceases to have a significant influence over the associate, it measures and recognises the remaining investment at fair value. The difference between the carrying value of the investment at the date significant influence or joint control ceases and the fair value of the remaining investment and of the consideration received is recognised through profit or loss.

Fair value measurement

The Group measures financial instruments, such as derivatives, and non-financial assets, such as investment properties, at fair value at each balance sheet date.
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability;

or

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

The principal or the most advantageous market must be accessible by the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
The Group uses valuation techniques that are appropriate in the circumstances in question and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

The fair value measurement is wholly classified in the same fair value hierarchy level in which the lowest level input used for measurement is classified.
For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.
The Group determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted financial assets, and for non-recurring measurement, such as assets held for sale in discontinued operations. The Group is comprised of the heads of properties, acquisitions and mergers, the head of risk management, chief finance officers and the managers of each manufacturing unit.
At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies.
For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.
The Group, in conjunction with the Group's external appraisers, compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the valuation results are presented to the Group's Statutory Auditors and Independent Auditors. The presentation includes a discussion of the major assumptions used in the valuations.
For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.
Fair-value related disclosures for financial instruments and assets and liabilities valued at fair value are summarised in paragraph 10.19 of these Notes.

Other intangible assets

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

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

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

Research and development costs

Research and development costs are fully charged to the statement of profit or loss for the financial year in which they are incurred. Development costs borne for a specific project are recognised as intangible assets when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete and use or sell the asset;
- how the intangible asset will generate future economic benefits;
- the availability of resources to complete the development;
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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Patents and licences

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

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

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

Property, plant and equipment

Property, plant and equipment are carried at historical cost, less accumulated depreciation and any accumulated impairment losses. Land is recognised at historical cost less any impairment losses. Such cost includes the cost, as incurred, of replacing part of the plant and equipment if the recognition criteria are met. Costs incurred after purchase are only capitalised if they increase the future economic benefits that may be derived from the use of the asset. The costs of replacing identifiable components of complex assets are capitalised and depreciated over their useful lives; the residual carrying amount of the replaced component is taken to the statement of profit or loss. Other costs are recognised in profit or loss as incurred.

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

The following depreciation rates are used:

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

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

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Rights of use of third-party assets

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement and requires an assessment of whether fulfilment of the arrangement is dependent on the use of a specific asset (or specific assets) and the arrangement conveys a right to use the asset (or assets). Such assessment is carried out on inception of the lease. Under IFRS 16, lease contracts are accounted for by recognising in the statement of financial position a lease liability of a financial nature representing the present value of future lease payments and recognising under assets the right of use of the leased asset.
At the commencement date, the right of use is recognised at cost and includes: the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, any initial direct costs incurred to sign the contract and the present value of estimated costs to be incurred in dismantling the underlying asset or restoring the underlying asset to the condition required by the terms and conditions of the lease, less any lease incentives received. Subsequently, the right of use is depreciated over the lease term (or the useful life of the asset if shorter), subject to any impairment losses and adjusted for any remeasurement of the lease liability.
Please refer to the section on the application of IFRS 16.

Impairment

Assets with an indefinite useful life, which are not amortised, are tested for impairment annually and whenever circumstances indicate that their carrying amount may be impaired, as defined by IAS 36.
Assets that are amortised are tested for impairment only if circumstances indicate that their carrying amount may be impaired.
The recoverable amount of goodwill acquired and allocated during the year is assessed at the end of the period in which the acquisition and allocation occurred.
For the purposes of determining its recoverable amount, goodwill is allocated, at acquisition date, to a CGU (or group of CGUs) benefiting from the acquisition. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use, that is the present value of expected future cash flows, net of taxes, by applying a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment is initially accounted for by reducing the carrying amount of the goodwill allocated to the CGU (or group of CGUs) and only subsequently to the other assets in the unit, in proportion to their carrying amount, up to the recoverable amount of assets with finite useful lives. An impairment loss is recognised if the carrying amount exceeds the recoverable amount. When an impairment of an asset other than goodwill subsequently ceases to exist or decreases, the carrying amount of the CGU is written up to the new estimated recoverable amount. The reversal cannot exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset. The reversal is immediately recognised in the statement of profit or loss.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.
The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables, the Group initially measures a financial asset at its fair value plus transaction costs, in the case of a financial asset not at fair value through profit or loss. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.
A financial asset may be classified and measured at amortised cost or fair value through OCI, if it generates cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.
The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The entity's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both.
Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

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Financial assets at amortised cost (debt instruments)

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

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.
The Group's financial assets at amortised cost includes trade receivables, a loan to an associate and a loan to a director included under other non-current financial assets.

Financial assets at fair value through OCI (debt instruments)

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

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets

and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.
The Group's debt instruments at fair value through OCI includes investments in quoted debt instruments included under other non-current financial assets.
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity instruments under IFRS 9 — *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.
Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recognised in OCI. Equity instruments designated at fair value through OCI are not tested for impairment.

Financial assets at fair value through profit or loss

This category includes financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.
This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.
A derivative embedded in a non-derivative hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.
A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

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Derecognition of a financial asset

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

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

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

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.
A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Loans and borrowings

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

Derecognition of a financial liability

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

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

Derivatives

Initial recognition and subsequent measurement

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

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

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

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

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

Fair value hedges

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

Cash flow hedges

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

Hedges of a net investment in a foreign operation.

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as OCI while any gains or losses relating to the remaining (ineffective) portion are recognised in the statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses is transferred to the statement of profit or loss.
The Group uses a loan as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries.

Inventories

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

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

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

Cash and short-term deposits

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

Treasury shares

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

Provisions

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

Provisions for employee benefits

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

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

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

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

Revenues

Revenues are recognised at fair value of the consideration received or receivable, taking into account the value of any returns, discounts, allowances and premiums, as well as taxes directly associated with sale and any changes in estimates.
Revenues are recognised when the significant risks and benefits associated with ownership of the goods are transferred to the buyer, when it is likely that the consideration will be recovered and the related costs or return of goods, where applicable, may be estimated reliably.
The transfer of risks and benefits generally coincides with the shipment or delivery of the goods.
Service revenues are recognised in profit or loss when the services are completed, or on an ongoing basis to the extent that the services in question have been rendered during the year.

Sales of machines

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

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

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

Government grants

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

Dividends

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

Income taxes

Current taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.
Current income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred taxes

Deferred taxes are provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.
Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.
Deferred taxes relating to items recognised outside profit or loss are also recognised outside profit or loss, thus in equity or in OCI consistently with the underlying element.
Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period, or recognised in profit or loss if it was recognised subsequently.
The Group offsets deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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6. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BY THE IASB

Adoption of the new IFRS 16

On 31 October 2017, Regulation EU No. 2017/1986 was issued which implemented IFRS 16 – *Leases* – at the EU level. IFRS 16 replaces IAS 17 – *Leases* and the corresponding interpretations IFRIC 4 – *Determining Whether an Arrangement Contains a Lease*; SIC 15 – *Operating Leases – Incentives*; SIC 27 – *Evaluating the Substance of Transactions in the Legal Form of a Lease*). IFRS 16 provides that lessees account for lease contracts that meet the requirements set out in the new Standard (which does not distinguish between operating leases and finance leases) in the statement of financial position by recognising a liability of a financial nature representing the present value of the future payments and an asset representing the right of use of the leased asset. The liability is subsequently adjusted over the lease term to reflect the payment of interest on the debt and the repayment of principal; the right of use of the leased asset is depreciated over the lease term.
IFRS 16 is applied retrospectively from 1 January 2019.
Prior to 1 January 2019, in accordance with the previous IAS 17 – *Leases* the Group classified each agreement for the use of third-party assets (as lessee) as a finance lease or an operating lease, at commencement date. A lease that transferred substantially all the risks and rewards incidental to ownership to the Group was classified as a finance lease; otherwise it was considered as an operating lease. Finance leases were accounted for as investments at inception, with an amount equal to the fair value of the leased asset or, where lesser, the present value of the minimum contractual payments. Assets on operating lease were not capitalised as investments and the lease payments were charged to the statement of profit or loss on a straight-line basis over the lease term.
The Group has decided to adopt the simplified retrospective approach to initial application of the Standard. Several practical expedients permitted by the Standard have also been adopted.

The adoption of IFRS 16 did not have any effect on initial equity as at 1 January 2019.
The key assumptions used upon IFRS 16 FTA are summarised below:

- All lease contracts in effect as at 1 January 2019 were analysed in light of the new definition of lease provided in the new Standard;
- In the analyses conducted, the Group also considered the presence of agreements not structured as leases from a legal standpoint, but that could nonetheless contain a lease on the basis of the new definition provided in IFRS 16. The Group therefore decided not to adopt the practical expedient permitting leases to be identified on the basis of the analyses already conducted under IAS 17 and IFRIC 4 – *Determining whether an Arrangement Contains a Lease*;
- The rights of use and lease liabilities have been classified to specific items of the statement of financial position;
- Any service components included in lease payments are generally excluded from the scope of IFRS 16;
- As permitted by the Standard, lease contracts for low-value assets (i.e., with a market value of less than USD 5 thousand) and short-term leases (i.e., with a term of less than 12 months) have been excluded from the scope of application. The costs relating to such contracts, which primarily refer to IT equipment, will continue to be charged to the statement of profit or loss as separately identified operating costs;
- The right of use assets for lease contracts within the scope of application of the new Standard have been recognised as equal in amount to the estimated lease liability, adjusted for the amount of any prepayments or other already recognised payments, as well as for any incentives received from the lessor prior to 1 January 2019;
- No impact has been identified on the opening balances as at 1 January 2019 referring to lease contracts in which the Group acts as the lessee and which had been classified as finance leases under IAS 17, except for the classification of assets. The previously applied interest rate, the residual value of the financial liability and the present value of the underlying asset have been confirmed, whereas the present value of the leased assets has been reclassified to the new item "right of use".

Other practical expedients have been adopted as at the transition date:

- The initial direct costs (including key money) have been excluded from the measurement of the right of use as at the date of initial application;
- The term of the lease has been determined in the light of all available information, where the contract includes options to extend or terminate the lease;
- Right of use assets and liabilities have not been recognised for leases with a residual term of less than 12 months.

Discount rates

The main key assumptions relating to the definition of the incremental borrowing rate (IBR) as at the date of initial application of the Standard were as follows:

- The interest rates indicated in the lease contracts, where present, have been used;
- The discount rate used to measure the value of the lease liabilities for the remaining lease contracts takes account of the country risk, currency, term of the lease contract and the Group's credit risk.

The average discount rate applied to lease liabilities recognised in the statement of financial position upon first time application (1 January 2019) was 2.07%.

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Impact of first time application (FTA)

The disclosure presented in the Consolidated Financial Statements at 31 December 2018, net of the impact of the inclusion of the contracts of the Mars Drink Group acquired in December 2018, was not subject to material changes, as reported below:

RIGHT-OF-USE ASSETS AT 1.1.2019	PRELIMINARY ESTIMATE OF IFRS 16 EFFECTS	ADJUSTMENTS	FTA EFFECTS EXCLUDING LAVAZZA PROFESSIONAL	LAVAZZA PROFESSIONAL EFFECTS	TOTAL IFRS 16 FTA EFFECTS	RECLASSIFICATION OF FINANCE LEASES	BALANCE AT 1.1.2019
Property, plant and equipment (right-of-use)	39,452	189	39,641	12,905	52,546	110,346	162,892
Intangible assets (right-of-use)	125		125		125		125
TOTAL ASSETS	**39,577**	**189**	**39,765**	**12,905**	**52,670**	**110,346**	**163,016**

LIABILITIES	PRELIMINARY ESTIMATE OF IFRS 16 EFFECTS	ADJUSTMENTS	IFRS 16 FTA EFFECTS	LAVAZZA PROFESSIONAL EFFECTS	TOTAL IFRS 16 FTA EFFECTS	RECLASSIFICATION OF FINANCE LEASES	BALANCE AT 1.1.2019
Financial liability from leases	39,577	189	39,765	12,905	52,670	84,834	137,504
TOTAL LIABILITIES	**39,577**	**189**	**39,765**	**12,905**	**52,670**	**84,834**	**137,504**

The impact of the right-of-use asset and lease liability for each asset class is shown below:

Rights of use

RIGHT-OF-USE ASSETS	
Property	32,460
Land	10,146
Means of transport	8,073
Industrial plants	1,426
Electronic machinery	283
Furniture and equipment	150
Software	125
Other property, plant and equipment	8
Total	**52,670**

Financial lease liabilities

	WITHIN 12 MONTHS	BEYOND 12 MONTHS	TOTAL
Property	4,425	28,035	32,460
Electronic machinery	117	166	283
Furniture and equipment	54	96	150
Industrial plants	526	901	1,426
Land	101	10,045	10,146
Means of transport	3,964	4,108	8,073
Other intangible assets	7	1	8
Software	125	0	125
Total	**9,319**	**43,351**	**52,670**

Reconciliation of contractual commitments for the use of leased assets at 31 December 2018 and financial lease liabilities at 1 January 2019

Contractual commitments for the use of third-party assets at 31 December 2018	45,344
Leases with a duration of less than 12 months or of modest value	(1,347)
Lavazza Professional leases	12,905
Nominal value of contractual commitments	56,902
Discounting effects	(4,232)
Net financial liability from leases at 1 January 2019	52,670

The impacts of IFRS 16 FTA on the Balance Sheet at 1 January 2019 are reported in the following table.

€ million	1.1.2019 (BEFORE IFRS 16 FTA)	IFRS 16 FTA IMPACTS	1.1.2019 (AFTER IFRS 16 FTA)
Goodwill	1,060	0	1,060
Other intangible assets	373	0	373
Right of use	0	163	163
Property, plant and equipment	674	(110)	564
Other non-current assets	140	0	140
Total non-current assets	**2,247**	**53**	**2,300**
Current assets	**1,637**		**1,637**
TOTAL ASSETS	**3,884**	**53**	**3,937**
Equity	2,268		2,268
Non-current liabilities	920	43	964
Current liabilities	697	9	706
TOTAL LIABILITIES AND EQUITY	**3,884**	**53**	**3,937**

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The effects of IFRS 16 FTA on the statement of profit or loss at 31 December 2019 are reported in the following table.

€ million	YEAR AT 31.12.2019 COMPARABLE (*) - (A)	IFRS 16 IMPACT - (B)	YEAR AT 31.12.2019 - (A+B)
Net revenues	2,199.7		2,199.7
Operating costs	(1,911.4)	12.4	(1,899.0)
ADJUSTED EBITDA	**288.3**	**12.4**	**300.7**
Non-recurring income (expense)	(10.1)		(10.1)
EBITDA	**278.2**	**12.4**	**290.6**
Amortisation and depreciation	(123.0)	(11.6)	(134.6)
EBIT	**155.2**	**0.8**	**156.0**
Financial income (expense)	1.7	(2.0)	(0.3)
Dividends	0.1		0.1
PROFIT BEFORE TAXES	**157.0**	**(1.2)**	**155.8**

(*) In comparable financial year 2019, lease contracts underwritten as of 1 January 2019 have always been classified as operating leases in accordance with IAS 17.

Other accounting standards, amendments and interpretations applicable as at 1 January 2019

Amendments to IFRS 9 — Financial Instruments — Prepayment Features with Negative Compensation

The amendments in question permit financial liabilities with prepayment features with negative compensation to be measured at amortised cost or at fair value through other comprehensive income, rather than at fair value through profit or loss.

Interpretation IFRIC 23 — Uncertainty over Income Tax Treatments

The purpose of IFRIC 23 is to clarify how to calculate current and deferred direct taxes where there is uncertainty regarding the tax treatments adopted by the entity preparing the financial statements that might not be accepted by the tax authority. There are no impacts to be reported.

Amendments to IAS 28 — Long-term Interests in Associates and Joint Ventures

This amendment seeks to clarify that the rules on impairment set out in IFRS 9 – *Financial Instruments* apply to long-term interests in associates and joint ventures.

Amendments to IAS 19 — Plan Amendment, Curtailment or Settlement

In this amendment, the IASB clarifies how pension expenditures are determined in the event of a modification of a defined benefit plan. The Group has not modified any of its existing plans. Accordingly, the amendment has not resulted in any impacts on its financial position or financial performance.

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Improvements to IFRS Standards (2015-2017 Cycle)

On 14 March 2019, Regulation EU No. 2019/412 was issued which implemented some IFRS improvements for the 2015-2017 cycle. In detail the following should be noted:

- Amendments to IFRS 3 – *Business Combinations* to IFRS 11 – *Joint Arrangements*: the amendments to IFRS 3 clarify that when an entity, formerly part of a joint venture, obtains control of an asset that constitutes a business, the entity is to measure the interest previously held in the joint venture at fair value. The amendments to IFRS 11 clarify that when an entity participates in a joint venture that constitutes a business, the entity is not to restate the interests previously held in that joint venture;
- Amendments to IFRS 12 – *Income Taxes*: the amendments clarify that an entity is to recognise taxes on dividends in profit or loss at the individual level, or in other comprehensive income or equity, depending on the accounting treatment of the transaction/event that gave rise to the distributable profits that generated the dividends;
- Amendments to IAS 23 – *Borrowing Costs*: the amendments clarify that any specific borrowing that remains in place after the related asset is ready for its intended use or for sale is to become a part of the funds used by the entity in calculating the capitalisation rate for general borrowings.

New accounting standards and interpretations issued by I.A.S.B. but not yet applicable

As at the date of preparation of these Consolidated Financial Statements, the IASB had issued the following new Standards and Interpretations not yet in effect:

NEW STANDARDS/INTERPRETATIONS NOT YET ENDORSED BY THE EU	APPLICATION MANDATORY AS OF
Amendments to IFRS 3 (Business Combinations)	01/01/2020
Amendments to IAS 1 and IAS 8 (Definition of Material)	01/01/2020
Amendments to References to the Conceptual Framework in IFRS Standards	01/01/2020
Change in the reference rates for the determination of interest rates: amendments to IFRS 9 (Financial Instruments), IAS 39 (Financial Instruments: Recognition and Measurement), and IFRS 7 (Financial Instruments: Disclosures)	01/01/2020

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

7. ESTIMATES AND ASSUMPTIONS

The preparation of the Financial Statements and relate Notes requires management to make estimates and assumptions based also on subjective judgements, past experience and hypotheses considered reasonable and realistic in relation to the information known at the time of the estimate. Such estimates have an effect on the reported amount of assets and liabilities and the amount of revenues and costs during the reporting period.
The key assumptions concerning the future used by the management in the application of accounting processes and that can have significant effects on the items recognised in the Consolidated Financial Statements or for which there is a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are summarised below.

Impairment of non-financial assets

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

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Taxes

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

Defined benefit plans

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

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Estimates include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.
Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor (see Notes 10.21 and 10.22 for details).

Development costs

The Group capitalises costs for product development projects. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. At 31 December 2019, the carrying amount of capitalised development costs was €21.8 thousand, whereas those capitalised in the previous year amounted to €1.9 million.
This amount includes significant investment in the development of an innovative fire prevention system. Prior to being marketed, it will need to obtain a safety certificate issued by the relevant regulatory authorities. The innovative nature of the product gives rise to some uncertainty as to whether the certificate will be obtained.

8. CAPITAL MANAGEMENT

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

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9. Reconciliation Between the Financial Statements of Luigi Lavazza S.p.A. and the Consolidated Financial Statements as of 31 December 2019

	EQUITY ATTRIBUTABLE TO THE GROUP	PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO THE GROUP
Luigi Lavazza S.p.A. - separate financial statements based on Italian GAAP	2,187,136	106,187
IFRS / IAS adjustments Luigi Lavazza S.p.A.	116,658	2,560
Luigi Lavazza S.p.A. - based on IFRS/IAS	2,303,794	108,747
Difference between the carrying amount and the share of the book equity of investees	(39,405)	60,332
Elimination of dividends and results of equity investments		(38,169)
Difference from consolidation for acquisitions	123,221	
Other consolidation adjustments including intercompany profit	3,559	(4,211)
TOTAL	**2,391,168**	**126,699**

IFRS/IAS adjustments are mainly due to the measurement of industrial assets at fair value (deemed cost) and the suspension of depreciation and amortisation of assets with finite useful lives.

Consolidation differences refer to the goodwill recognised in the Consolidated Financial Statements and not recognised in the Financial Statements of the individual subsidiaries.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

10.1 Goodwill

Balance at 31.12.2018	**1,060,188**
PPA	(115,564)
Exchange delta and other changes	12,221
Balance at 31.12.2019	**956,845**

The change in goodwill on the previous year was mainly due to the allocation of the difference between the price paid and fair value deriving from the acquisition of the Mars' Drinks business unit, renamed "Lavazza Professional", in 2019 (purchase price allocation - PPA). At 31 December 2018, this difference had been provisionally allocated to Goodwill, as permitted by IFRS 3.
The other changes refer to the purchase price adjustment during the year in accordance with the purchase agreement.

The following table provides the breakdown of goodwill by CGU (geographical area):

	31.12.2018	PPA AND PRICE ADJUSTMENT	EXCHANGE DELTA AND OTHER CHANGES	31.12.2019
CGU America	72,015	333,688	11,450	417,153
CGU France	416,051	3,506	0	419,557
CGU Italy	18,034	0	689	18,723
CGU Rest of Europe and Rest of the world	26,785	74,545	82	101,412
Mars Drinks provisional goodwill	527,302	(527,302)	0	0
Total	**1,060,187**	**(115,563)**	**12,221**	**956,845**

Net of the effect of the allocation to the Group's various CGUs, the €115,565 reduction was due to the price adjustment agreed with Mars in 2019 and the allocation of part of the value to intangible assets with finite useful lives for approximately €90 million (primarily distribution and intellectual property agreements) and to property, plant and equipment for approximately €18 million.

10.2 Other intangible assets

The following table shows the composition and movements of other intangible assets:

	BALANCE AT 31.12.2018	PPA	PPA RECLASSIFICATION	INCREASES	(DECREASES)	RECLASSIFICATIONS	EXCHANGE DELTA	CONSOLIDATION AREA DELTA	BALANCE AT 31.12.2019
DEVELOPMENT COSTS									
Gross value	10,299			22		761			11,081
(Write-down provision)	(171)								(171)
(Accumulated amortisation)	(5,513)			(1,948)					(7,461)
Net value	**4,615**			**(1,926)**		**761**			**3,450**
RIGHTS FOR INDUSTRIAL PATENTS AND RIGHTS FOR EXPLOITATION OF INTELLECTUAL PROPERTY									
Gross value	2,816	20,739		5	(734)	(742)	362		22,446
(Write-down provision)									
(Accumulated amortisation)	(2,225)			(2,827)	734	738	1		(3,579)
Net value	**590**	**20,739**		**(2,822)**		**(4)**	**364**		**18,867**
CONCESSIONS, LICENSES AND SIMILAR RIGHTS	-	-		-	-	-	-	-	-
Gross value	183,403	4,367		1,586	(209)	742	79	(1)	189,967
(Write-down provision)									
(Accumulated amortisation)	(41,382)			(10,727)	209	(738)	7	1	(52,631)
Net value	**142,021**	**4,367**		**(9,141)**		**4**	**86**		**137,336**
TRADEMARKS	-	-		-	-	-	-	-	-
Gross value	498,167	15,496					4,207		517,870
(Write-down provision)	(311,037)								(311,037)
(Accumulated amortisation)				(1,801)			2		(1,799)
Net value	**187,130**	**15,496**		**(1,801)**			**4,209**		**205,034**
TOTAL OTHER INTANGIBLE ASSETS	-	-		-	-	-	-	-	-
Gross value	76,071	48,986	(21,170)	3,528	(1,714)	16,935	872	(904)	122,604
(Write-down provision)				(23)					(23)
(Accumulated amortisation)	(44,196)		21,170	(11,381)	1,465	(103)	(18)	904	(32,159)
Net value	**31,875**	**48,986**		**(7,875)**	**(249)**	**16,832**	**854**		**90,422**
FIXED ASSETS IN PROCESS AND ADVANCES	-	-		-	-	-	-	-	-
Gross value	6,503			17,787		(15,182)			9,108
(Write-down provision)									
Net value	**6,503**			**17,787**		**(15,182)**			**9,108**
TOTAL INTANGIBLE ASSETS	-	-		-	-	-	-	-	-
Gross value	777,258	89,588	(21,170)	22,928	(2,657)	2,514	5,521	(905)	873,077
(Write-down provision)	(311,207)			(23)					(311,230)
(Accumulated amortisation)	(93,317)		21,170	(28,684)	2,408	(103)	(8)	905	(97,629)
Net value	**372,734**	**89,588**		**(5,778)**	**(249)**	**2,411**	**5,512**		**464,217**

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The change in other intangible assets, net of the effect of the reallocation of the difference between the price paid and fair value (PPA) deriving from the acquisition of the Mars' Drinks business unit of approximately €90 million, refers primarily to new IT (Information Technology) investments made during the year.
The reclassifications mainly concerned fixed assets in process and also entailed some transfers between property, plant and equipment and intangible assets.

Impairment test of goodwill and intangible assets with indefinite useful lives

The goodwill and trademarks with indefinite useful lives acquired (€956,845 thousand and €191,132 thousand, respectively) in business combinations have been allocated to cash generating units for impairment-testing purposes. Four cash generating units (CGUs) have been identified for this purpose on a geographical basis: Italy, France, America, Rest of Europe and Rest of World, in accordance with the management of the business and their geographical location.
The carrying amounts of the CGUs (coinciding with the value of net invested capital) have been tested for recoverability by comparing them with their recoverable amounts, calculated as the net present value of the future cash flows that are estimated to derive from ongoing use of the assets concerned ("value in use"). At the end of the relevant period, the cash flows based on projected financial performance in 2021 were used to estimate a terminal value reflecting the value of the CGUs beyond the plan period on a going-concern basis.
The main assumptions adopted in determining value in use are set out below for the CGUs to which the disclosure refers.

CGU	WACC	G RATE
Italy	7.60%	0.40%
France	6.60%	1.30%
America	6.10%	1.90%
Rest of the world	7.00%	2.00%

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

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

On the basis of the simulations conducted using the parameters set out above, no signs of impairment of the goodwill or other assets carried in the financial statements at and for the year ended 31 December 2019 were identified.
The Group has also conducted various analyses of the sensitivity of the test results to changes in the underlying assumptions conditioning the value in use of the cash generating units (discount rate, WACC, g growth rate and long-term margins).

10.3 Rights of use

Rights of use totalled €162,064 overall and refer for €162,023 to contracts for property, plant and equipment.
The breakdown and movements of rights of use of intangible fixed assets are shown in the following tables:

	BALANCE AT 31.12.2018	IFRS16 FTA	INCREASES	BALANCE AT 31.12.2019
RIGHT-OF-USE SOFTWARE				
Gross value		125		125
(Write-down provision)				
(Accumulated amortisation)			(83)	(83)
Net value		**125**	**(83)**	**42**
TOTAL RIGHT-OF-USE INTANGIBLE ASSETS				
Gross value		125		125
(Write-down provision)				
(Accumulated amortisation)			(83)	(83)
Net value		**125**	**(83)**	**42**

The item concerns rights of use of software and, net of depreciation, remained unchanged in the reporting year.

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The breakdown and movements of rights of use of property, plant and equipment are shown in the following tables:

	BALANCE AT 01.01.2019	IFRS 16 RECLASSIFICATIONS	IFRS16 FTA	INCREASES	(DECREASES)	EXCHANGE DELTA	CONSOLIDATION AREA DELTA	BALANCE AT 31.12.2019
RIGHT-OF-USE LAND AND BUILDINGS								
Gross value			42,606	10,539	(1,264)	714	(195)	52,400
(Write-down provision)								
(Accumulated depreciation)				(6,297)	13	(18)		(6,302)
Net value			**42,606**	**4,242**	**(1,251)**	**696**	**(195)**	**46,098**
RIGHT-OF-USE LEASED BUILDINGS								
Gross value		115,844						115,844
(Write-down provision)								
(Accumulated depreciation)		(5,497)		(3,510)				(9,008)
Net value		**110,346**		**(3,510)**				**106,836**
RIGHT-OF-USE INDUSTRIAL AND COMMERCIAL EQUIPMENT								
Gross value			1,426	397		5		1,828
(Write-down provision)								
(Accumulated depreciation)				(518)				(518)
Net value			**1,426**	**(120)**		**4**		**1,310**
RIGHT-OF-USE FURNITURE AND FITTINGS								
Gross value			150	226				376
(Write-down provision)								
(Accumulated depreciation)				(61)				(61)
Net value			**150**	**165**				**315**
RIGHT-OF-USE MEANS OF TRANSPORT								
Gross value			8,073	3,742	(94)	44		11,764
(Write-down provision)								
(Accumulated depreciation)				(4,473)	19	(8)		(4,462)
Net value			**8,073**	**(731)**	**(75)**	**36**		**7,302**
RIGHT-OF-USE ELECTRONIC MACHINES								
Gross value			283		(13)			269
(Write-down provision)								
(Accumulated depreciation)				(109)				(109)
Net value			**283**	**(109)**	**(13)**			**160**
RIGHT-OF-USE OTHER ASSETS								
Gross value			8					8
(Write-down provision)								
(Accumulated depreciation)				(7)				(7)
Net value			**8**	**(7)**				**1**
TOTAL RIGHT-OF-USE PROPERTY, PLANT AND EQUIPMENT								
Gross value		115,844	52,546	14,904	(1,371)	763	(195)	182,490
(Write-down provision)								
(Accumulated depreciation)		(5,497)		(14,975)	32	(26)		(20,467)
Net value		**110,346**	**52,546**	**(71)**	**(1,339)**	**737**	**(195)**	**162,023**

The increases for the period mainly refer to office properties classified as rights of use for land and buildings, and motor vehicles used by employees classified as rights of use for vehicles.
Rights of use for leased buildings include the former IAS 17-compliant finance lease of the Nuvola Headquarters, reclassified from property, plant and equipment to rights of use at the beginning of the year.

The effects of IFRS 16 FTA on the statement of profit or loss are shown in the following table:

	YEAR 2019
Amortisation and depreciation	15,058
Interest	3,737
Lease costs for short-term and modest value contracts	5,629

The effects on cash shown in the statement of cash flows indicate a net use of cash to pay for rights of use of €15 million for the reporting year.

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10.4 Property, plant and equipment

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

	BALANCE AT 31.12.2018	IFRS16 RECLASSIFI-CATION	PPA	PPA RECLASSI-FICATION	INCREASES	(DECREASES)	RECLASSIFI-CATIONS	EXCHANGE DELTA	CONSOLIDATION AREA DELTA	BALANCE AT 31.12.2019
LAND AND BUILDINGS										
Gross value	366,752	(115,844)	12,587	(22,032)	1,188	(168)	(13,130)	1,483	1,093	231,930
(Write-down provision)	(8,954)				(1,494)	11	1,016			(9,421)
(Accumulated depreciation)	(116,674)	5,497		22,032	(5,860)	139	9,777	(545)	(85)	(85,718)
Net value	**241,124**	**(110,346)**	**12,587**		**(6,165)**	**(18)**	**(2,337)**	**938**	**1,008**	**136,791**
PLANT AND MACHINERY										
Gross value	818,809		3,814	(45,045)	6,589	(10,951)	44,563	1,630	(224)	819,184
(Write-down provision)	(3,902)				(4,563)	657				(7,808)
(Accumulated depreciation)	(557,024)			45,045	(33,914)	10,109	1,262	(791)	213	(535,100)
Net value	**257,882**		**3,814**		**(31,887)**	**(186)**	**45,825**	**839**	**(11)**	**276,276**
INDUSTRIAL AND COMMERCIAL EQUIPMENT										
Gross value	55,679				1,184	(4,672)	70		(394)	51,867
(Write-down provision)	(4,262)					885				(3,377)
(Accumulated depreciation)	(40,694)				(3,853)	3,772			382	(40,393)
Net value	**10,723**				**(2,669)**	**(16)**	**70**		**(12)**	**8,097**
ESPRESSO MACHINES AND OTHER COMMERCIAL EQUIPMENT										
Gross value	309,719		413	(1,889)	76,093	(34,913)	(13,697)	2,878		338,604
(Write-down provision)	(11)				(3,421)					(3,432)
(Accumulated depreciation)	(214,987)			1,889	(41,690)	32,157	14,022	(2,197)		(210,805)
Net value	**94,722**		**413**		**30,983**	**(2,756)**	**325**	**681**		**124,367**
FURNITURE AND FITTINGS										
Gross value	39,269		778	(1,839)	1,953	(495)	609	250	(14)	40,511
(Write-down provision)					(113)					(113)
(Accumulated depreciation)	(27,073)			1,839	(2,687)	433	(15)	(140)	8	(27,635)
Net value	**12,196**		**778**		**(847)**	**(62)**	**594**	**110**	**(6)**	**12,762**
MEANS OF TRANSPORT										
Gross value	1,449					(212)		2		1,238
(Write-down provision)										
(Accumulated depreciation)	(1,052)				(63)	185		(3)		(932)
Net value	**397**				**(63)**	**(28)**		**(1)**		**306**
ELECTRONIC MACHINES										
Gross value	32,880		266	(1,207)	4,159	(1,324)	102	283		35,158
(Write-down provision)										
(Accumulated depreciation)	(25,929)			1,207	(2,718)	482	86	(198)	4	(27,066)
Net value	**6,951**		**266**		**1,441**	**(843)**	**187**	**85**	**4**	**8,091**
OTHER ASSETS										
Gross value	1,641				(1,079)	(8)	2,823	54	(569)	2,862
(Write-down provision)										
(Accumulated depreciation)	(1,439)				(68)	1,106	(2,823)	(58)	521	(2,761)
Net value	**203**				**(1,147)**	**1,098**		**(5)**	**(48)**	**101**
FIXED ASSETS IN PROCESS AND ADVANCES										
Gross value	50,652				49,733	(4,001)	(52,374)	362		44,373
(Write-down provision)	(822)				(331)			5		(1,148)
Net value	**49,831**				**49,402**	**(4,001)**	**(52,374)**	**366**		**43,225**
TOTAL PROPERTY, PLANT AND EQUIPMENT										
Gross value	1,676,851	(115,844)	17,858	(72,013)	139,821	(56,746)	(31,035)	6,942	(107)	1,565,727
(Write-down provision)	(17,951)				(9,922)	1,553	1,016	5		(25,299)
(Accumulated depreciation)	(984,871)	5,497		72,013	(90,852)	48,382	22,309	(3,932)	1,043	(930,410)
Net value	674,028	(110,346)	17,858		39,048	(6,811)	(7,710)	3,015	936	610,018

The item “land and buildings” includes the reclassification of the finance lease of the Nuvola Headquarters to rights of use.

Net of the reclassification relating to rights of use for buildings (€110 million) and the reallocation of the difference between the price paid and fair value deriving from the acquisition of the Mars Drinks division (€18 million), the change in property, plant and equipment was mainly due to the new industrial investments and purchases of machines intended for FOL, offset by depreciation for the year.

The reclassifications include several transfers during the year of property, plant and equipment in process to other intangible assets and the reclassification to assets held for sale of a property located in Bollate (Milan) to be sold in the following year.

The property was adjusted to fair value in the amount of €5,247 thousand.

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10.5 Investments

Investments recognised in the consolidated financial statements at 31 December 2019 were as follows:

	% HELD	31.12.2019	31.12.2018	CHANGES
INVESTMENTS MEASURED AT COST:				
A) SUBSIDIARIES				
Lavazza Maroc S.a.r.l.	100	1	1	0
Lavazza Trading (Shenzhen) Co. Ltd	100	1,000	1,000	0
Immobiliare I.N.N.E.T S.r.l.	100		2,003	(2,003)
Total subsidiaries		**1,001**	**3,004**	**(2,003)**
B) ASSOCIATES				
International coffee partners G.m.b.H.	20	25	25	0
Total associates		**25**	**25**	**0**
C) OTHER COMPANIES				
Casa del Commercio e del Turismo S.p.A.	3	6	6	0
Air Vallée S.p.A.	2	26	26	0
Idroelettrica S.c.r.l.	0.1	0	0	0
Tamburi Investment Partners S.p.A.	0.39	4,774	7,893	(3,119)
Clubitaly S.p.a.	0	6,201	6,201	0
Connect Ventures One L.p.	2.53	1,284	1,136	148
Immobiliare 3 F (formerly Le Foyer du Fonctionnaire)	n.a.			0
Consorzio Nazionale Imballaggi (Conai)	n.a.			0
Companies valued at FV through profit or loss		**12,291**	**15,262**	**(2,971)**
INV. A.G. S.r.l.	10.61	10,915	5,383	5,532
Companies valued at FV through OCI		**10,915**	**5,383**	**5,532**
Total other companies		**23,206**	**20,645**	**2,561**
Total		**24,232**	**23,674**	**558**

The change of investments in subsidiaries refers to the investment in Immobiliare I.N.N.E.T. S.r.l., which was included in the consolidation scope as of 1 January 2019.
During the year, 675,000 shares in Tamburi Investment Partners S.p.A. were disposed of, for a total book value of €2.4 million, generating a capital gain of about €2 million. At the end of the year, the investment was adjusted to fair value for a positive amount of €0.7 million.

The change compared to the previous year was attributable to the fair value (FV) adjustment of the investment in INV. A.G. S.r.l., as reported in the following table:
INV. A.G. (Investment valued at FV through OCI)

1 January 2018	**5,208**
Sales	
Purchases	
Total profit and losses recognised through OCI	**175**
Change 1 January 2018 - 1 January 2019	**175**
Sales	
Purchases	
Total profit and losses recognised through OCI	**5,532**
31 December 2019	**10,915**

Other companies valued at FV through profit or loss

01/01/2018	**15,054**
Sales	(4)
Purchases	
Total profit or loss recognised through OCI	**212**
Movements 1 January 2018 and 1 January 2019	**208**
Sales	(3,875)
Purchases	
Total profit or loss recognised through OCI	**904**
31/12/2019	**12,291**

During the year, the Group received no dividends distributed by investees. Notes 10.19 and 10.20 provide further information in this regard.

10.6 Non-current and current financial assets

	31.12.2019	31.12.2018	CHANGES
Finance lease and other minor receivables	6,774	9,519	(2,745)
Financial trade receivables	23,238	23,275	(37)
Write-down provision for doubtful financial trade receivables	(1,351)	(1,260)	(91)
Total non-current financial receivables	**28,661**	**31,534**	**(2,873)**
Mutual funds and other non-current securities	2,827	3,768	(941)
Insurance policies	18,112	17,677	435
Derivatives and other hedging instruments	3,471	297	3,174
Non-current securities and non-current financial instruments	24,410	21,742	2,668
TOTAL NON-CURRENT FINANCIAL ASSETS	**53,071**	**53,276**	**(205)**

	31.12.2019	31.12.2018	CHANGES
Financial receivables from others	8,231	2,406	5,825
Financial trade receivables	27,670	27,143	527
Write-down provision for doubtful financial trade receivables	(4,827)	(4,917)	90
Financial receivables from companies controlled by Parent Companies	70,014	0	70,014
Total current financial receivables	**101,088**	**24,632**	**76,456**
Derivatives and other hedging financial instruments	24,222	5,406	18,816
Equity securities	0	983	(983)
Bonds	82,814	178,159	(95,345)
Certificates of deposit	0	12,955	(12,955)
Mutual investment funds	0	2,963	(2,963)
Other current securities	24	19	5
Total current securities and current financial instruments	**107,060**	**200,485**	**(93,425)**
TOTAL CURRENT FINANCIAL ASSETS	**208,148**	**225,117**	**(16,969)**

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Financial receivables

Finance lease receivables refer to coffee machines leased to customers in the OCS sector. As a finance lease transaction, in addition to recognition of the receivable it entails the booking of interest income among finance income and expense. During the year, the receivable was written down by €1.1 million.
Financial trade receivables refer to loans granted by the subsidiary Cofincaf S.p.A. to customers and are subject to impairment pursuant to IFRS 9. Accordingly, their value has been adjusted by the relevant write-down provision detailed below:

	PROVISION FOR THE WRITE-DOWN OF FINANCIAL TRADE RECEIVABLES
Balance at 31.12.2018	**(6,177)**
Provisions	(237)
Uses	222
Reclassifications	17
Exchange rate delta	(3)
Balance at 31.12.2019	**(6,178)**

The following table provides a breakdown of the provision by maturity:

		2018		2019
Average maturity of receivables	RECEIVABLES	WRITE-DOWN PROVISION FOR EXPECTED FUTURE LOSSES	RECEIVABLES	WRITE-DOWN PROVISION FOR EXPECTED FUTURE LOSSES
Not yet due	46,644	(4,438)	46,021	(4,808)
Less than 30 days	1,483	(249)	1,693	(177)
30-90 days	10	(7)	10	(7)
Within 1 year	1,573	(1,085)	594	(219)
Within 5 years	708	(398)	2,590	(967)
Breakdown of receivables by maturities	**50,418**	**(6,177)**	**50,908**	**(6,178)**
Write-down	(6,177)		(6,178)	
Total	**44,241**		**44,730**	

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

Financial securities and hedging financial instruments

Securities classified as non-current financial assets refer primarily to closed-ended mutual funds held by the subsidiary Lavazza Capital S.r.l. and insurance policies contracted by the subsidiary Nims S.p.A.
Securities classified as current financial assets refer to ordinary bonds and equities listed on regulated markets and held by the subsidiary Lavazza Capital S.r.l.
Derivatives and other hedging instruments refer to the open positions in hedging derivatives at 31 December 2019 at their fair value.
Notes 10.21 and 10.22 provide further information on financial assets.

10.7 Deferred tax assets and liabilities

These totalled to €61,237 thousand and €77,921 thousand, respectively. Note 11.10 on income taxes provides further details.

10.8 Other non-current and current assets

	31.12.2019	31.12.2018	CHANGES
Guarantee deposits	2,943	2,788	155
Other non-current receivables	1,388	1,535	(147)
TOTAL OTHER NON-CURRENT ASSETS	**4,331**	**4,323**	**120**
Tax receivables	63,775	63,187	588
Advances to suppliers	5,493	6,017	(524)
Prepayments and accrued income	34,934	46,709	(11,775)
Other receivables	1,953	6,682	(4,729)
TOTAL OTHER CURRENT ASSETS	**106,155**	**122,595**	**(16,440)**

Amounts due from the treasury of €63.7 million primarily refer to VAT receivables from revenue authorities and the amount claimed by the Parent Company (€3.7 million) in connection with subsidies for investments in capital assets pursuant to Article 18 of Decree-Law No. 91 of 24 June 2014 ("Competitiveness Decree-Law"), converted, with amendments, by Law No. 116 of 7 August 2014, and the research and development tax credit introduced by the 2015 Stability Law (Law No. 190-2014).

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

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10.9 Inventories

	31.12.2019	31.12.2018	CHANGES
Raw materials, ancillaries and consumables	186,849	180,612	6,237
Write-down provision for raw material, ancillaries and consumables	(2,961)	(1,500)	(1,461)
Raw materials, ancillaries and consumables	**183,888**	**179,112**	**4,776**
Work in process	2,498	1,952	546
Provision for work in progress	(700)	(400)	(300)
Work in process	**1,798**	**1,552**	**246**
Finished products and goods	203,828	199,244	4,584
Write-down provision for finished products and goods	(20,814)	(18,941)	(1,873)
Finished products and goods (net value)	**183,014**	**180,303**	**2,711**
Advances	**605**	**653**	**(48)**
TOTAL	369,305	361,620	7,685

The inventory of raw materials increased compared to the previous year, primarily due to the combined price-quantity effect of the green coffee component. Inventories of finished products increased, primarily owing to higher inventories of packaged coffee and capsules (€11 million), partly offset by the decline in inventories of coffee machines, other food products and spare parts (€6 million).

Inventories at 31 December 2019 were recognised net of the write-down provision, which accounts for obsolescence and slow turnover, primarily relating to vending systems and spare parts, advertising materials and plant spares.

10.10 Trade receivables

The following table provides a breakdown of the Group's trade receivables at 31 December 2019 and at 31 December 2018:

	31.12.2019	31.12.2018	CHANGES
Trade receivables <12 months	318,884	319,320	(436)
Provision for write-down of receivables	(12,261)	(10,509)	(1,752)
Total trade receivables	**306,623**	**308,811**	**(2,188)**

Trade receivables are recognised net of deferred premiums and discounts to be settled.

The following table provides the breakdown of receivables by ageing and the related write-down provision for the years 2019 and 2018:

Average maturity of receivables	2019		2018	
	TRADE RECEIVABLES	WRITE-DOWN PROVISION FOR EXPECTED FUTURE LOSSES	TRADE RECEIVABLES	WRITE-DOWN PROVISION FOR EXPECTED FUTURE LOSSES
Not yet due	278,611		289,215	
Less than 30 days	23,328	(1,579)	17,719	(985)
30-90 days	8,351	(2,088)	3,817	(955)
Within 1 year	3,098	(3,098)	3,002	(3,002)
Within 5 years	5,496	(5,496)	5,567	(5,567)
Breakdown of receivables by maturities	**318,884**	**(12,261)**	**319,320**	**(10,509)**
Write-down provision	**(12,261)**		**(10,509)**	
Total	**306,623**		**308,811**	

Trade receivables do not bear interest, have an average maturity of 30 to 90 days and are subject to impairment pursuant to IFRS 9, and their value is adjusted for the relevant write-down provision, for which movements provided in the following table:

	PROVISION FOR WRITE-DOWN OF RECEIVABLES, CURRENT
31.12.2018	**(10,509)**
Provision for the year	(6,326)
Uses	4,676
Release to income	1
Adjustment for amounts in foreign currency	(15)
Change in consolidation area and other changes	(87)
31.12.2019	**(12,261)**

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10.11 Current tax receivables

Current tax receivables include €13.5 million tax receivables from parent companies and €0.5 million other tax receivables.

Receivables from parent companies refer to receivables claimed from the parent company, Finlav S.p.A., for IRES (corporate income tax) by some Group companies participating in the national tax consolidation programme. Receivables include the tax benefit for the years 2007 to 2011 of approximately €2.8 million resulting from the introduction of Decree-Law 201/2011 (converted by Law No. 214 of 27 December 2011), which permits IRAP (regional production tax) relating to the taxable portion of personnel and similar expenses to be deducted from IRES (company income tax) with effect from tax period 2007.

Other tax receivables refer to credits for income taxes claimed by other Group companies not participating in the Group's national tax consolidation programme.

10.12 Cash and cash equivalents

Cash and cash equivalents at 31 December 2019 and at 31 December 2018 were broken down as follows:

	31.12.2019	31.12.2018
Bank and post office deposits	603,656	564,830
Bank deposits in foreign currencies	33,219	30,006
Cash and valuables on hand	272	477
TOTAL CASH AND CASH EQUIVALENTS	**637,147**	**595,313**

Cash and cash equivalents consist of cash at bank and post-office accounts, as well as cash in hand and cheques held by logistic hubs, outside contractors and sales areas.
Foreign currency accounts were approximately €33 million, mainly regarding the Parent Company and funded by market purchases and collections of receivables from foreign customers located in countries outside the Eurozone. These accounts are generally used to cover payments for the supply of green coffee and for promotional activities in foreign markets.

10.13 Share capital and reserves

Share capital

Fully subscribed and paid-up share capital at 31 December 2019 consisted of 25,000,000 ordinary shares, with a nominal value of €1 each.

Treasury shares

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

Other capital reserves

This item mainly includes the other reserves recognised in the financial statements of the Parent Company, which at 31 December 2019 were broken down as follows:

	31.12.2019	31.12.2018	CHANGES
Re. Law 576/75 *	28	28	0
Re. Law 72/83 **	268	268	0
Re. Law 408/90	25,096	25,096	0
Re. Law 413/91	5,681	5,681	0
Re. Law 342/2000 ***	103,048	103,048	0
Re. Law 448/2001	5,100	5,100	0
Re. Law 350/2003 ****	93,900	93,900	0
Re. Law 266/2005	70,400	70,400	0
Re. Law 185/2008	58,200	58,200	0
Total revaluation reserves	**361,721**	**361,721**	**0**
Legal reserve	5,000	5,000	0
Extraordinary reserve	203,611	203,611	0
Merger surplus reserve	56,953	56,953	0
Reserve Re. Law 46/1982	91	91	0
Reserves Re. Law 488/1992	381	381	0
Other reserves	478	478	0
Reserve arising on exchange gains	0	0	0
Other reserves	**266,514**	**266,514**	**0**
TOTAL	**628,235**	**628,235**	**0**

* 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.

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Other components of comprehensive income, net of taxes

The changes in other components of comprehensive income at 31 December 2018 and 31 December 2019 were broken down as follows:

CHANGES AT 31 DECEMBER 2018	CASH FLOW HEDGE RESERVE	RESERVE OF FVOCI FINANCIAL ASSETS	RESERVE FOR TRANSLATION DIFFERENCES	RESERVE FOR ADJUSTMENTS TO EMPLOYEE BENEFITS	TOTAL
Gains (losses) from the translation of financial statements denominated in currencies other than the Euro	0	0	(7,081)	0	(7,081)
Derivatives to hedge exchange-rate risk	5,359	0	0	0	5,359
Derivatives to hedge commodity risk	(17,534)	0	0	0	(17,534)
Interest Rate Swaps	(917)	0	0	0	(917)
Loss on AFS financial instruments	0	52	0	0	52
Actuarial changes on pension plans	0	0	0	(276)	(276)
Total	**(13,092)**	**52**	**(7,081)**	**(276)**	**(20,397)**

CHANGES AT 31 DECEMBER 2019	CASH FLOW HEDGE RESERVE	RESERVE OF FVOCI FINANCIAL ASSETS	RESERVE FOR TRANSLATION DIFFERENCES	RESERVE FOR ADJUSTMENTS TO EMPLOYEE BENEFITS	TOTAL
Gains (losses) from the translation of financial statements denominated in currencies other than the Euro	0	0	13,645	0	13,645
Derivatives to hedge exchange-rate risk	(4,860)	0	0	0	(4,860)
Derivatives to hedge commodity risk	29,218	0	0	0	29,218
Interest Rate Swaps	(2,418)	0	0	0	(2,418)
Loss on AFS financial instruments	0	5,531	0	0	5,531
Actuarial changes on pension plans	0	0	0	(5,844)	(5,844)
Total	**21,940**	**5,531**	**13,645**	**(5,844)**	**35,272**

Distributions made and proposed

During the year, the Parent Company distributed ordinary dividends in the amount of €35,100 thousand.
Proposed dividends on ordinary shares are subject to approval by the annual Shareholders' Meeting.

10.14 Financial liabilities – non-current and current

	31.12.2019	31.12.2018	CHANGES
Bank loans	463,753	598,038	(134,285)
Lease liabilities		80,435	(80,435)
Payables for options on the purchase of investments	28,619	29,106	(487)
Derivatives and other hedging instruments	5,720	3,333	2,387
Withholdings as guarantees for purchases of investments	9,979	9,746	233
TOTAL NON-CURRENT FINANCIAL LIABILITIES	**508,071**	**720,658**	**(212,587)**

	31.12.2019	31.12.2018	CHANGES
Other short-term bank payables	33,624	31,936	1,688
Bank loans (current portion)	135,287	100,538	34,749
Payables to other lenders	2,171	3,917	(1,746)
Derivatives and other hedging instruments	6,892	7,923	(1,031)
Other liabilities	22	22	0
TOTAL CURRENT FINANCIAL LIABILITIES	**177,996**	**144,336**	**33,660**

Bank loans primarily consist of:

- the corporate loan contracted in 2016 for a term of five years (maturing in 2021), for an initial amount of €400 million, from a pool of four banks (club deal), bearing interest at a variable rate (six-month Euribor), subsequently converted to a fixed rate by an interest rate swap transaction. During the year, a partial repayment of €100 million was made, and the outstanding debt at the end of 2019 was €200 million (current share of €125 million);
- the corporate loan contracted in 2018 for a term of five years, for an amount of €400 million, from a pool of three banks (club deal), bearing interest at a variable rate (six-month Euribor), with repayment set to begin in 2021. Also this loan was then converted to fixed rate through an interest rate swap;
- a mortgage loan contract entered into by the subsidiary Cofincaf S.p.A. in the amount of €10 million, fully classified among current financial liabilities. The reference rate is the three-month Euribor plus a spread of 0.60%, with repayment in bullet form on 30 June 2020.

The outstanding loans are not subject to any covenants.
Finance lease liabilities associated with the construction of the Nuvola Headquarters were reclassified to financial liabilities under rights of use of third-party assets.
Payables for call options on investments relate to the amount payable in connection with the call option on the residual non-controlling interest in Kicking Horse Coffee.
Retention payments on the purchase of equity investments refer to the amounts retained as security for the purchase of the interest in Nims S.p.A.

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

MATURITY OF FINANCIAL LIABILITIES (€ MILLION)	NON-CURRENT FINANCIAL LIABILITIES	REPAYMENT 2021	REPAYMENT 2022	REPAYMENT 2023	REPAYMENT 2024	BEYOND
Bank loan	464	155	155	155	0	0
Payables for options on the purchase of investments	29	29	0	0	0	0
Payables for withholding on guarantees on the purchase of investments	10	10	0	0	0	0
Total	**503**	**194**	**155**	**155**	**0**	**0**

Notes 10.21 and 10.22 provide further information on financial liabilities.

10.15 Right-of-use liabilities – non-current and current

Liabilities due after one year amounted to €122 million and those due within one year amounted to €16 million, of which €4 million referring to the lease agreement for the Nuvola Headquarters.
At 1 January 2019, the adoption of IFRS 16 led to the recognition of a new financial debt amounting to €53 million and the reclassification of the liability referring to the Nuvola Headquarters to non-current (€80 million) and current (€4 million) financial liabilities.
Liabilities due beyond one year are broken down as follows (€ million):

	NON-CURRENT LIABILITIES	REPAYMENT 2021	REPAYMENT 2022	REPAYMENT 2023	REPAYMENT 2024	BEYOND
Lease liabilities for the Nuvola HQ	76	4	4	5	5	58
Other right-of-use liabilities	46	9	7	5	5	20
Total right-of-use liabilities	**122**	**13**	**11**	**10**	**10**	**78**

10.16 Provisions for employee benefits

	SEVERANCE INDEMNITIES	PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS	TOTAL PROVISIONS FOR EMPLOYEE BENEFITS
Balance at 31.12.2018	**25,141**	**54,280**	**79,421**
Increases	(76)	8,118	8,042
Uses	191	(326)	(135)
Other	142	(873)	(731)
Exchange rate delta	(3)	16	13
Changes in consolidation area	(296)	0	(296)
Balance at 31.12.2019	**25,099**	**61,215**	**86,314**

Severance indemnities include employee termination indemnities for the Group's employees, pursuant to Article 2120 of the Italian Civil Code, which fall within the scope of application of IAS 19, and other similar employee provisions of international subsidiaries.
Employee termination indemnities accrued up to 31 December 2006 remained with the Company; employee termination indemnities accrued from 1 January 2007, at the employee's discretion, have been allocated to supplementary pension schemes or kept with the Company, which has transferred the indemnities to the Treasury Fund established by the INPS. Accordingly, the employee termination indemnities accrued since 1 January 2007 are classified as defined-benefit plans. Since the Group fulfils its obligation by paying contributions to a separate entity (a fund), without additional obligations, the entity recognises the contributions to the fund on an accrual basis, corresponding to the employment services rendered by the employees, without performing any actuarial calculations. Since on the reporting date the Group had already paid the contributions in question, no liabilities have been recognised. On the other hand, employee termination indemnities accrued up to 31 December 2006 continue to be classified as defined-benefit plans, maintaining the actuarial measurement criteria, in order to express the present value of the benefit due upon severance, accrued to the employees at 31 December 2006.
Provisions for pensions and similar obligations primarily refer to Lavazza Professional Germany.

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The following tables present a summary of the net cost components of the benefits taken to the statement of profit or loss and the statement of comprehensive income in 2019 in connection with employee termination indemnities and similar items:

Liabilities (assets) at 1 January 2019	**25,141**
Amounts included in the statement of profit or loss:	
Current service costs	638
Net interest	91
Other services	0
Total	728
Amounts included in the statement of comprehensive income:	
Profit (loss) from changes in actuarial assumptions	1,028
Total	**1,028**
Other movements:	
Benefits paid	(1,500)
Benefits transferred	0
Curtailment	0
Exchange-rate delta and change in scope	(299)
Total	**(1,798)**
Liabilities (assets) at 31 December 2019	25,099

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

EMPLOYEE TERMINATION INDEMNITY ASSUMPTIONS	2019
Discount rate	AA euro composite curve at 31 December 2019
Personnel turnover rate	1.0 % - 4.5%
Expected inflation rate	(1.50%)

The following is a summary of the quantitative sensitivity analysis for the significant assumptions adopted at 31 December 2019.

DESCRIPTION	CHANGE INVESTIGATED	IMPACT OF INCREASE	IMPACT OF DECREASE
Discount rate	25,099	24,909	24,760
Personnel turnover rate	25,099	24,819	25,523
Expected inflation rate	25,099	25,527	24,685

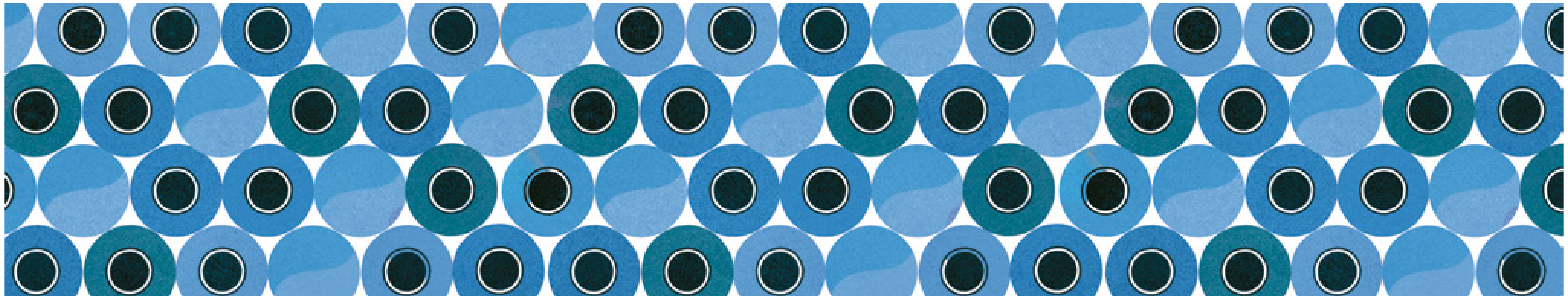
The sensitivity analyses set out above were conducted on the basis of a method of extrapolating the impact on the obligation of reasonable changes in the key assumptions in place on the reporting date.

EXPECTED FUTURE PAYMENTS	2019
Within 12 months	1,578
From 1 to 4 years	3,746
Beyond 4 years	26,559
Total	**31,882**

The expected cash flows for future payments under the plan are not sufficient to have a significant impact on the Group's financial position and cash flow situation.
The main assumptions adopted in determining the obligations arising from pension funds and similar obligations were essentially due to Lavazza Professional Germany:

ASSUMPTIONS FOR PENSIONS AND SIMILAR OBLIGATIONS	2019
Interest rate	1.80%
Salary growth rate	3.75%
Expected inflation rate	1.30%
Expected mortality rate	RT 2018G

ASSUMPTIONS FOR PENSIONS AND SIMILAR OBLIGATIONS	VARIATION INVESTIGATED	POSITIVE CHANGE IMPACT	NEGATIVE CHANGE IMPACT
Interest rate	57,028	51,691	63,190
Salary growth rate	57,028	57,678	56,411
Expected inflation rate	57,028	60,876	55,091
Expected mortality rate	57,028	59,378	54,697



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10.17 Provisions – non-current and current

The following table provides information on the movements of provisions at 31 December 2019:

	31.12.2018	PROVISIONS	USES	RECLASSIFI-CATIONS	EXCHANGE RATE DELTA	CHANGE IN CONSOLIDATION AREA	31.12.2019
Provision for litigations (non current)	28,383	6,824	(8,163)	0	(7)	0	27,037
Provision for agents' customer compensation (non-current)	2,909	1,936	(602)	0	18	0	4,261
Provision for product warranty (non-current)	6,122	255	(174)	0	14	0	6,217
Other provisions - non-current liabilities	19,915	29,743	(8,244)	(306)	(11)	0	41,097
Provisions for future risks and charges	**57,329**	**38,758**	**(17,183)**	**(306)**	**14**	**0**	**78,612**
Provisions for bonuses and employee benefits to be paid within one year	20,935	11,251	(11,294)	0	(2)	0	20,890
Other provisions for current liabilities	3,786	2,851	(1,629)	(868)	29	0	4,169
Provisions (current portion)	**24,721**	**14,102**	**(12,923)**	**(868)**	**27**	**0**	**25,059**

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

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

The provision for product warranties was essentially unchanged compared to the previous year and refers primarily to warranties and returns relating to coffee machines.

Other non-current provisions primarily include:

- the provision for future charges recognised during the year of €12.1 million, associated with investment and conversion projects aimed at further enhancing environmental sustainability of both the production processes and the finished products, by minimising the use of plastics;
- the provision for employee bonuses and benefits to be settled beyond one year; it was adjusted at year-end net of drawdowns and amounted to €21 million;
- other provisions for risks, of which approximately €3 million allocated for risks and charges attributable to the subsidiary Fresh & Honest Café Ltd, was essentially unchanged during the year.

Other provisions for current liabilities primarily include the provision for restructuring, associated with the reorganisation and rationalisation of the Lavazza Group's production and distribution system.

10.18 Current tax payables

Current tax payables amounted to €2.2 million and include tax payables to parent companies of €375 thousand and other tax payables amounting to €1.8 million.
Payables to the Parent Companies refer to the receivables claimed from the parent company, Finlav S.p.A., for IRES (corporate income tax) by Group companies participating in the national tax consolidation programme.

10.19 Trade payables

The item amounted to €367.8 million and included payables for the supply of raw materials and services due within one year.

10.20 Other non-current and current liabilities

	31.12.2019	31.12.2018	CHANGES
OTHER NON-CURRENT LIABILITIES	**171**	**365**	**(194)**
VAT payables	35,673	46,629	(10,956)
Withholdings to be paid as withholding agents	4,867	4,358	509
Other miscellaneous tax payables <12	4,202	2,370	1,832
Total other current tax payables	**44,742**	**53,357**	**(8,615)**
Advances	28,428	36,185	(7,757)
Payables to social security institutions <12	12,668	9,670	2,998
Payables to personnel	28,646	32,289	(3,643)
Payables to shareholders and bondholders	671	355	316
Other payables to third parties	1,156	8,201	(7,045)
Total other current payables	**71,569**	**86,700**	**(15,131)**
14th month salary and holiday leave	3,747	3,945	(198)
Other operating accrued expenses	(43)	1,285	(1,328)
Total accruals	3,704	5,230	(1,526)
Deferred lease liabilities	501	913	(412)
Other deferred income	6,020	8,824	(2,804)
Total deferred income	6,521	9,737	(3,216)
OTHER CURRENT LIABILITIES	**126,536**	**155,024**	**(28,488)**

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

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10.21 Financial instruments – additional information

The carrying amounts of the individual categories of financial assets and liabilities held by the Group at 31 December 2019 and 31 December 2018, revised according to the classification rules set out in IFRS 9 – *Financial Instruments*, are presented below.

	MEASUREMENT AT AMORTISED COST		MEASUREMENT AT FV THROUGH PROFIT OR LOSS		MEASUREMENT AT FV THROUGH OCI	
	2019	2018	2019	2018	2019	2018
Cash and cash equivalents	637,147	595,313				
Trade receivables	306,623	308,811				
Other current assets (excluding tax receivables)	42,380	59,408				
Other non-current assets (excluding tax receivables)	4,331	4,323				
NON-CURRENT FINANCIAL ASSETS						
Financial receivables	30,012	32,794				
Mutual funds			2,827	3,768		
Insurance policies			18,112	17,677		
Derivatives and other hedging instruments					3,471	297
CURRENT FINANCIAL ASSETS						
Financial receivables	97,684	27,143				
Derivatives and other hedging financial instruments					24,222	5,406
Equity securities				983		
Bonds			82,814	178,159		
Certificates of deposit				12,955		
Mutual investment funds				2,963		
Other current securities			24	19		
Investments in other companies			12,291	15,262	10,915	5,383
Trade payables	367,804	365,577				
Other current liabilities (excluding tax liabilities)	81,794	101,667				
Other non-current liabilities (excluding tax liabilities)	171	365				
Non-current financial liabilities						
Bank loans	463,753	598,038				
Finance lease liabilities		80,435				
Right-of-use liabilities - non current	121,888					
Payables for options on the purchase of investments			28,619	29,106		
Derivatives and other hedging instruments					5,720	3,333
Withholdings as guarantees for purchases of investments						

	MEASUREMENT AT AMORTISED COST		MEASUREMENT AT FV THROUGH PROFIT OR LOSS		MEASUREMENT AT FV THROUGH OCI	
	2019	2018	2019	2018	2019	2018
CURRENT FINANCIAL LIABILITIES						
Other short-term bank payables	33,624	31,936				
Bank loans (current portion)	135,287	100,538				
Right-of-use liabilities - current	15,594					
Payables to other lenders	2,171	3,917				
Derivatives and other hedging instruments					6,892	7,923
Other liabilities	22	22				

Detailed information on derivatives is provided here below.

Derivatives

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

Non-current derivative assets

The item includes the positive change in the fair value of outstanding derivatives at 31 December 2019 with a duration in excess of 12 months, contracted in order to hedge against foreign exchange and commodities risk.

NON-CURRENT DERIVATIVE ASSETS ON EXCHANGE RATES (€ UNITS)

NOTIONAL VALUE	UNDERLYING FINANCIAL RISK	FAIR VALUE	HEDGED ASSET / LIABILITY
81,289,304	Exchange rate risk	921,349	Sales
Total		**921,349**	

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NON-CURRENT DERIVATIVE ASSETS ON COMMODITIES (€ UNITS)

NOTIONAL VALUE	UNDERLYING FINANCIAL RISK	FAIR VALUE	HEDGED ASSET / LIABILITY
14,294,349	Commodity risk	2,549,841	Purchases of green coffee
Total		**2,549,841**	

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

	31.12.2019	31.12.2018	CHANGE
Derivatives to hedge exchange-rate risk	921	87	834
Derivatives to hedge commodity risk	2,550	210	2,340
Derivatives to hedge interest-rate risk			0
Total	**3,471**	**297**	**3,174**

Current financial derivative assets

The item includes the increase in the fair value of outstanding derivatives at 31 December 2019 with a duration of less than 12 months, contracted in order to hedge against foreign exchange and commodities risks.

The following table provides a detailed description:

CURRENT DERIVATIVE ASSETS ON EXCHANGE RATES (€ UNITS)

NOTIONAL VALUE	UNDERLYING FINANCIAL RISK	FAIR VALUE	HEDGED ASSET / LIABILITY
54,054,133	Exchange rate risk	587,646	Sales
Total		**587,646**	

CURRENT DERIVATIVE ASSETS ON COMMODITIES (€ UNITS)

NOTIONAL VALUE	UNDERLYING FINANCIAL RISK	FAIR VALUE	HEDGED ASSET / LIABILITY
123,154,679	Commodity risk	23,634,350	Purchases of green coffee
Total		**23,634,350**	

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

	31.12.2019	31.12.2018	CHANGE
Derivatives to hedge exchange-rate risk	588	4,939	(4,351)
Derivatives to hedge commodity risk	23,634	467	23,167
Total	**24,222**	**5,406**	**18,816**

Financial derivative liabilities

The item includes the decrease in the fair values of the derivatives outstanding at 31 December 2019.

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

	NOTIONAL VALUE	UNDERLYING FINANCIAL RISK	FAIR VALUE	HEDGED ASSET / LIABILITY
CURRENT DERIVATIVE LIABILITIES				
on exchange rates	171,767,725	Exchange rate risk	1,762,237	Purchases of green coffee
on commodities	53,952,061	Commodity risk	5,129,590	Purchases of green coffee
Total			**6,891,827**	
NON-CURRENT DERIVATIVE LIABILITIES				
on exchange rates	3,001,642	Exchange rate risk	12,998	Sales
on interest rates	590,000,000	Interest rate risk	5,706,671	Financing
Total			**5,719,669**	
Total			**12,611,496**	

The Group is exposed to fluctuations in foreign exchange rates in particular with regard to the purchase of green coffee denominated in USD and sales in countries with currencies other than the euro. In order to reduce the impact of changes in foreign exchange rates on expected cash flows, in accordance with its risk management policy the Group has recourse to derivative instruments for hedging purposes.
The price of green coffee is subject to considerable volatility caused by both variables relating to physical supply and demand mechanisms (harvest, stocks, consumption and logistical limitations) and speculative activity on the exchanges.
In order to limit the impact of fluctuations in coffee prices, the Group adopts procurement policies that aim to reduce price changes, while also undertaking hedging transactions through financial derivatives, as established by its risk management policy.
The option under the current finance lease contract (project lease) for the real-estate complex from which the lease originated to transform the applicable interest rate from floating to fixed was exercised during the year. Accordingly, the Group no longer needed to hedge the risk associated with the variability of the interest expense paid on the said finance lease contract.
The Group also had recourse to financial derivatives (interest rate swaps) to transform the rate on the corporate loan, commented upon in the section regarding amounts due to banks, from variable to fixed to hedge against the risk of fluctuation in the relevant interest rates.

The following table shows the movements in the year:

	31.12.2019	31.12.2018	CHANGES
CURRENT DERIVATIVE LIABILITIES			
Derivatives to hedge exchange-rate risk	1,762	415	1,347
Derivatives to hedge commodity risk	5,130	7,475	(2,345)
Derivatives to hedge interest-rate risk		33	(33)
NON-CURRENT DERIVATIVE LIABILITIES			
Derivatives to hedge exchange-rate risk	13	29	(16)
Derivatives to hedge commodity risk		53	(53)
Derivatives to hedge interest-rate risk	5,707	3,251	2,456
Total	**12,611**	**11,256**	**1,355**

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10.22 Fair value measurement

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

	YEAR 2019			YEAR 2018		
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Investments in other companies	10,915	12,291		5,383	15,262	
Mutual funds	2,827				6,731	
Insurance policies		18,112			17,677	
Equity securities				983		
Bonds	82,814			178,159		
Certificates of deposit					12,955	
Other current securities		24			19	
Derivative assets		27,693			5,703	
Payables for options on the purchase of investments			28,619			29,106
Derivative liabilities		12,612			11,256	

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

10.23 Government grants

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

GRANTS TOWARDS OPERATING EXPENSES (€ UNITS)

GRANTOR	AMOUNT RECEIVED (€)	DESCRIPTION
FONDIMPRESA	109,272	Training programme
---	2,985,178	R&D bonus Re. Art. 1 para. 35 Law 190/2014
GSE	216,817	Grants for photovoltaic systems as per Ministerial Decree of 19/02/07 (New Energy Account)
Total	**3,311,267**	

DESCRIPTION	AMOUNT RECEIVED (€)
R&D bonus Re. Art. 1 para. 35 Law 190/2014	407,879
Bonus for investments in new operating assets Ateco 28	418,358
TOTAL	**826,237**

10.24 Contractual assets and liabilities

With reference to contractual assets and liabilities, it should be noted that they almost entirely refer to trade receivables, with the exception of contractual liabilities arising on advances from customers totalling €28,428 thousand, mainly received by the subsidiary Nims S.p.A.

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11. CONSOLIDATED STATEMENT OF PROFIT OR LOSS

11.1 Revenue from contracts with customers

This item is broken down as follows:

	YEAR 2019	YEAR 2018	CHANGE
Net revenues from the sale of goods	2,153,491	1,840,686	312,805
Net revenues from the sale of services	46,199	29,317	16,882
TOTAL	2,199,690	1,870,003	329,687

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

GEOGRAPHIC AREA	YEAR 2019	RATIO %	YEAR 2018	RATIO %	CHANGE	% CHANGE
Italy	667,849	30.4%	678,051	36.3%	(10,202)	-1.5%
Other EU countries	1,034,392	47.0%	888,421	47.5%	145,971	16.4%
Non-EU countries	497,449	22.6%	303,531	16.2%	193,918	63.9%
Total	2,199,690	100%	1,870,003	100%	329,687	17.6%

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

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

REVENUE RECOGNITION TIMING	YEAR 2019	YEAR 2018	CHANGE
Lease of coffee machines provided on free loan for use	35,260	23,388	11,872
Other services	6,147	4,551	1,596
Other rentals	4,792	1,378	3,414
TOTAL	46,199	29,317	16,882

11.2 Cost of sales

This item includes the following costs:

	YEAR 2019	YEAR 2018	CHANGE
Material and production costs	(1,159,238)	(1,021,682)	(137,556)
Logistic and distribution costs	(93,752)	(71,338)	(22,414)
Fees and commissions on sales	(46,220)	(45,288)	(932)
TOTAL	(1,299,210)	(1,138,308)	(160,902)

The change compared to the previous year is chiefly attributable to the new companies within the Lavazza Professional business unit, acquired at the end of 2018, and included in the Group's statement of profit or loss as of 1 January 2019. The cost of sales referring to these companies amounted to approximately €148 million.

The following table provides a breakdown by nature:

	YEAR 2019	YEAR 2018	CHANGE
Purchase of raw materials and third-party products	(925,902)	(835,812)	(90,090)
Change in inventories	17,162	(3,879)	21,041
Costs for services	(235,499)	(188,819)	(46,680)
Costs for use of third-party assets	(2,148)	(2,760)	612
Personnel costs	(55,261)	(49,170)	(6,091)
Amortisation, depreciation and write-downs	(85,320)	(57,868)	(27,452)
Provisions for risks	(12,242)	0	(12,242)
TOTAL	(1,299,210)	(1,138,308)	(160,902)

The cost for the purchase of goods rose from €836 million in 2018 to €926 million in 2019, increasing by €90 million. Approximately €97 million is attributable to the Lavazza Professional business unit.
Excluding this effect, the cost fell due to the decline in the market price of green coffee.

Net of the effect of Lavazza Professional (about €24 million), the cost for services grew in line with sales volumes. The ratio of the cost of sales to net revenue declined slightly compared to the previous year.

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11.3 Promotional and advertising costs

This item includes the following costs:

	YEAR 2019	YEAR 2018	CHANGE
Advertising costs	(98,884)	(90,292)	(8,592)
Promotional costs	(57,116)	(57,406)	290
Marketing costs	(49,025)	(49,962)	937
TOTAL	**(205,025)**	**(197,660)**	**(7,365)**

Advertising costs grew by €8.6 million, of which €3 million referring to Lavazza Professional, whereas promotional and marketing costs declined slightly.

The following table provides a breakdown by nature:

	YEAR 2019	YEAR 2018	CHANGE
Purchase of third-party products	(3,454)	(2,156)	(1,298)
Change in inventories	(6,279)	(5,812)	(467)
Costs for services	(194,132)	(188,938)	(5,194)
Costs for use of third-party assets	(68)	(146)	78
Personnel costs	20	(62)	82
Amortisation and depreciation	(1,079)	(452)	(627)
Other costs	(33)	(94)	61
TOTAL	**(205,025)**	**(197,660)**	**(7,365)**

11.4 Selling costs

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

The following table provides a breakdown by nature:

	YEAR 2019	YEAR 2018	CHANGE
Purchase of third-party products	(4,026)	(1,336)	(2,690)
Change in inventories	(1,294)	(2,134)	840
Costs for services and other costs	(53,651)	(52,244)	(1,408)
Costs for use of third-party assets	(4,116)	(5,169)	1,053
Personnel costs	(119,772)	(93,947)	(25,826)
Write-down of receivables	(5,446)	(2,702)	(2,744)
Amortisation and depreciation	(3,369)	(789)	(2,580)
Provisions for risks	(892)	(19,015)	18,123
TOTAL	**(192,566)**	**(177,334)**	**(15,232)**

Net of the increase attributable to the previous year's €19 million provision to hedge risks arising from the change in the distribution model, the rise compared to the previous year would amount to €34 million, regarding the costs related to Lavazza Professional's commercial structure and sales network.

11.5 General and administrative costs

	YEAR 2019	YEAR 2018	CHANGE
Personnel costs	(159,951)	(103,534)	(56,417)
Costs for services	(45,751)	(36,873)	(8,878)
Advisory services	(32,502)	(22,032)	(10,470)
Costs for use of third-party assets	(7,284)	(14,332)	7,048
Amortisation and depreciation	(28,202)	(15,717)	(12,485)
Other costs	(7,188)	(5,110)	(2,078)
Remuneration to Directors and Statutory Auditors	(2,300)	(2,194)	(106)
Purchase of third-party products	(550)	(591)	41
Change in inventories	(808)	(513)	(295)
TOTAL	**(284,536)**	**(200,896)**	**(83,640)**

The item general and administrative expenses includes all structure costs referring to the Lavazza Group's companies and related to the personnel management, legal, administration, finance and control, general management, general services and IT systems functions.
General and administrative expenses amounted to €284.5 million, of which €58 million related to Lavazza Professional.
On a like-for-like consolidation basis, general and administrative expenses grew by €25 million, mainly as a result of higher personnel expenses.

11.6 Research and development costs

	YEAR 2019	YEAR 2018	CHANGE
Costs for services, net of grants received	(13,780)	(5,922)	(7,858)
Purchase of materials	(445)	(385)	(60)
Change in inventories	(877)	(722)	(155)
Other costs	(113)	0	(113)
Amortisation and depreciation	(2,143)	(1,990)	(153)
TOTAL	**(17,358)**	**(9,019)**	**(8,339)**

Research and development costs amounted to €17.4 million, increasing by €8.3 million. Research and development activities are carried out by the Parent Company and mainly referred to the development and implementation of new food products and coffee machines, the development of compostable and recyclable packages for capsules and Roast&Ground products. The Report on Operations provides further details on the activities carried out.

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

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

	YEAR 2019	YEAR 2018	CHANGE
Royalties	2,205	1,192	1,013
Insurance reimbursements	696	1,740	(1,044)
Capital gains (losses)	(1,238)	(379)	(859)
Socially beneficial and charitable expense	(5,033)	(6,859)	1,826
Amortisation and depreciation	(18,106)	(9,807)	(8,299)
Provisions	(6,747)	(6,004)	(743)
Impairment of property, plant and equipment	(5,782)	(1,053)	(4,729)
Personnel costs	0	(2,255)	2,255
Other income (expense)	(834)	(3,518)	2,684
TOTAL	**(34,839)**	**(26,943)**	**(7,896)**

The item amounted to €35 million and includes amortization and depreciation (€18 million), mainly referring to the client portfolio acquired with the subsidiary Nims S.p.A. and the Carte Noire and Merrild expertise acquired in the previous years and amortised based on a useful life of 20 years, in addition to the amortisation of trademarks, expertise and client portfolio acquired in 2018 with the Lavazza Professional business unit, the effects of which were reported in 2019.
Provisions amounted to €6.7 million and mainly refer to provisions for litigation related to contractual risks.

One-off charges totalled €10 million and are recognised separately in the financial statements. They refer to the charges incurred by the Group in 2019 for the new acquisitions finalised at the end of 2018. These charges include the costs for aligning and integrating the Group's organisational and functional models.

11.8 Personnel expenses

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

	YEAR 2019	YEAR 2018	CHANGE
Wages and salaries	(239,759)	(175,726)	(64,033)
Social security contributions	(50,702)	(49,047)	(1,655)
Costs for defined benefit plans	(20,934)	(9,838)	(11,096)
Other costs	(23,572)	(14,357)	(9,215)
Total personnel costs	**(334,967)**	**(248,968)**	**(85,999)**
OF WHICH:			
- included in cost of sales	(55,261)	(49,170)	(6,091)
- included in selling costs	(119,772)	(93,947)	(25,825)
- included in other structure costs	(159,934)	(105,851)	(54,083)
Total personnel costs	**(334,967)**	**(248,968)**	**(85,999)**

They amounted to €335 million, of which €64 million related to Lavazza Professional.

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

CATEGORIES	DECEMBER 2018	DECEMBER 2019
Executives	219	232
Managers - Middle Managers	571	577
White Collars	1,719	1,936
Blue Collars	1,327	1,277
Total	**3,836**	**4,022**

The increase in the number of employees compared to the previous year was instrumental to the Group's expansion.

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11.9 Financial income and expense, dividends and investments results

Financial income and expense

The following table reports the breakdown of financial income and expense for 2019 and the previous year:

	YEAR 2019	YEAR 2018	CHANGE
FV adjustments of securities in profit or loss	293	477	(184)
Income (expense) from derivatives	48	11,467	(11,419)
Exchange gains (losses)	7,815	(4,941)	12,756
Other financial income (expense)	(8,444)	(1,334)	(7,110)
TOTAL	**(288)**	**5,669**	**(5,957)**

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

Income (expense) from financial derivatives amounted to €2,849 thousand and €2,801 thousand, respectively, and refer to the ineffective component of the derivatives contracted to hedge against foreign exchange, interest rate and commodity risks and subject to hedge accounting, since they met all the conditions for the hedge accounting treatment of derivatives.

Exchange losses referred for approximately €681 thousand to realised foreign exchange differences on purchases and sales in foreign currencies and for approximately €7.1 million to foreign exchange differences recognised to adjust assets and liabilities in currencies other than the local currency of the consolidated company at the spot exchange rate at year-end.

Other financial income and expense were broken down as follows:

OTHER FINANCIAL INCOME	YEAR 2019	YEAR 2018	CHANGE
Other financial income	921	5,128	(4,207)
Interest income from banks	272	1,222	(950)
Interst income on financial receivables	1,453	1,404	49
Total financial income	**2,646**	**7,754**	**(5,108)**

OTHER FINANCIAL EXPENSE	YEAR 2019	YEAR 2018	CHANGE
Interest and financial charges paid to banks	(6,233)	(3,765)	(2,468)
Interest paid to other lenders	(111)	(1,570)	1,459
Other financial expense	(4,746)	(378)	(4,368)
Total financial expense	**(11,090)**	**(5,713)**	**(5,377)**

These chiefly refer income accrued on bonds and other securities held by the subsidiary Lavazza Capital S.r.l.
Interest income from banks mainly refer to interest accrued on current accounts included in the Group's cash and cash equivalents.
Interest income from financial receivables mainly refer to interest accrued on loans granted to clients by the subsidiary Cofincaf.

Interest paid to banks mainly refer to interest accrued on corporate loans taken out by the Parent Company.
Following the adoption of IFRS 16 as of 1 January 2019, the item "other financial expense" includes the interest expense accrued on financial liabilities for rights of use, including those associated with the finance lease of the Nuvola Headquarters that up to the previous year had been classified under interest paid to other lenders.

Dividends and equity investments results

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

11.10 Income taxes

Income taxes for the years ended 31 December 2019 and 2018 were broken down as follows:

	YEAR 2019	YEAR 2018	CHANGE
Current taxes	(30,342)	(35,457)	5.115
Use (provision) for deferred tax liabilities	(7,591)	(2,676)	(4.915)
Provision (use) for deferred tax assets	9,481	9,528	(47)
TOTAL	**(28,452)**	**(28,605)**	**153**

As a result of the tax effect included in OCI:

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME COMPONENTS	2019	2018
DEFERRED TAXES RELATING TO ITEMS RECOGNISED IN OCI FOR THE YEAR		
Gain/(loss) on the write-up of cash flow hedges	(10,556)	6,086
Unrealised gains/(losses) on financial assets	0	(123)
Net gain/(loss) on actuarial gains/(losses)	2,220	98
Income taxes in the consolidated statement of other comprehensive income	**(8,336)**	**6,061**

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The reconciliation between income taxes recognised and theoretical taxes resulting from the application of the effective tax rate on pre-tax income was as follows:

GROUP PRE-TAX RESULT	**155,834**
Theoretical tax rate	24%
GROUP THEORETICAL TAX RATE	**(37,400)**
Dividends	(444)
Different tax ratio of Group companies	(1,612)
Permanent differences	451
ACE / Patent Box tax incentives	6,647
Temporary differences for IFRS adjustments and other consolidation adjustments	(658)
Temporary differences	(1,943)
Prior years' tax losses	578
Prior years' taxes	12,993
IRAP (regional production tax)	(4,390)
Other local taxes	(2,674)
ACTUAL TAX RATE	**(28,452)**

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

Deferred taxes

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

	31.12.2018	RETURNS	PROVISIONS	EXCHANGE RATE EFFECT	RECLASIFICATION	PPA	MOVEMENTS TO OCI RESERVE	31.12.2019
DEFERRED TAX ASSETS								
Deferred deductibility costs	47,008	(17,683)	26,959	(22)	6,915	(9,504)	1,966	55,639
Elimination of intercompany profits	3,467	(1,425)	1,630	0	0	0	0	3,672
Adjustment to financial derivatives FV	8,259	0	0	0	(321)	0	(6,011)	1,927
Total deferred tax assets	**58,735**	**(19,108)**	**28,588**	**(22)**	**6,594**	**(9,504)**	**(4,045)**	**61,237**
DEFERRED TAX LIABILITIES								
Deferred tax liabilities on amortisation and depreciation delta	44,311	(12,086)	14,827	0	4,462	0	0	51,515
Exchange gains (losses)	169	(169)	1,441	0	0	0	0	1,441
Other passive differences	16,772	(4,895)	8,473	828	2,132	(3,835)	0	19,474
Adjustment to financial derivatives FV	1,201	0	0	0	0	0	4,291	5,492
Total deferred tax liabilities	**62,453**	**(17,150)**	**24,741**	**828**	**6,594**	**(3,835)**	**4,291**	**77,921**

12. COMMITMENTS AND RISKS

Commitments to purchase green coffee

At 31 December 2019, the subsidiary Kicking Horse Coffee had coffee purchase commitments of USD 14.6 million, compared with €12.2 million in the previous year.

Guarantees given to clients

The subsidiary Lavazza France S.a.s. provides guarantees for loans contracted by its clients in connection with their operating activity. Such guarantees amounted to €634 thousand in 2019 and €713 thousand in 2018.

Guarantees to third parties in favour of the Parent Company

This item consists of guarantees given in our favour by banks: €2,048,930 in the interest of the Ministry of Productive Activities for prize contests; €3,414,261 in the interest of the of the Revenue Agency for the tax audit and €4,964,254 for the application for VAT reimbursement to a Group company; JPY 100,000,000 in the interest of Tokyo Customs for import duties and taxes; and €81,000 in the interest of the A.E.M. Energia (Milan) and Edison Energia S.p.A. (Pozzilli) for gas supplies; €204,093 to the Region of Piedmont for clearance work and safety assessment associated with the new headquarters; €16,702 to Consorzio Nucleo Sviluppo Industriale Isernia for drinking water supply; €682,773 to Customs; €748,473 for property leases; other minor amounts relating primarily for €51,650 to custom fees for import transactions and for €2,582 to the Verrès Municipality for waste collection.

13. ASSETS HELD FOR SALE

They are recognised in the statement of financial position and refer to a property located in Bollate (Milan) to be sold in the following year.
The property was adjusted to fair value in the amount of €5,247 thousand.
The Group does not have other assets held for sale.

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14. RISK MANAGEMENT OBJECTIVES AND CRITERIA

As explained in Note 10.21, the Group's main financial liabilities, beside derivative liabilities, include bank loans and financing, trade and other payables. The main objective of such liabilities is to finance the Group's operating activities.
The Group has financial and other receivables, both trade and non-trade receivables, cash and cash equivalents and short-term deposits originating directly from its operating activities. The Group also holds AFS investments, other financial securities and derivative assets.

The Group is exposed to market risk, interest risk, exchange rate risk, raw material price risk, and credit risk.
The Group's management oversees the management of these risks. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skill and experience. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken.

The Board of Directors reviews and approves policies for managing each of these risks, which are summarised below.

Interest rate risk

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

Foreign exchange risk

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

Risk of coffee price fluctuations

The price of green coffee is subject to considerable volatility caused by both variables relating to physical supply and demand mechanisms (harvest, stocks, consumption and logistical limitations) and speculative activity on the exchanges.
In order to limit the impact of fluctuations in coffee prices, the Group adopts procurement policies that aim to reduce price changes, while also undertaking hedging transactions through financial derivatives, as established by its risk management policy.
No speculative transactions are undertaken.

Credit risk

The Group has established a credit management (trade finance) function, exclusively tasked with monitoring credit status, payment reminders, customised and specific management of each client, through internal risk control procedures.
The Group applies a specific policy aimed at standardising the processes of assigning credit limits to and clustering clients in the interest of uniform management of credit issues across the various countries.
This process is supported by a sale order monitoring scheme based on defined credit limits, implemented in the Group's IT systems.
Disputed accounts are regularly monitored with legal counsel to ensure constant updates to the stages of the various cases, as reflected in an accrual to the provision for the write-down of receivables.
Trade receivables from third parties deemed to have become impaired are classified as bad debts, primarily past due by more than one year and managed through legal procedures.
The maximum amount of the risk at the reporting rate is equal to the net carrying amount of the trade receivables, also taking account of the risk of the expected credit loss estimated by the Company on the basis of the business model identified (as defined by IFRS 9).

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15. RELATED PARTY DISCLOSURES

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

		2019							2018		
COMPANY	TYPE	SALES OF GOODS AND SERVICES	PURCHASES GOODS AND SERVICES	FINANCIAL EXPENSE	TRADE RECEIVABLES	TRADE PAYABLES	FINANCIAL RECEIVABLES	FINANCIAL PAYABLES	SALES OF GOODS AND SERVICES	PURCHASES GOODS AND SERVICES	TRADE PAYABLES
Lavazza Trading (Shenzhen) Co.Ltd	Subsidiary		874,324			546,756				394,016	603,526
Lavazza Maroc S.a.r.l.	Subsidiary		133,509			83,407				16,740	35,620
Real Estate I.N.N.E.T. Srl	Subsidiary									58,118	
Lavazza Entertainment	Other related party							484,529			
Lavazza Eventi S.r.l.	Other related party	401,254	1,051,099	427	178,512	126,689		1,125,493	N/A	N/A	N/A
Lea S.r.l.	Other related party	226,261	373,836	427	15	11,039	294	705,897	N/A	N/A	N/A
Tosetti Value S.p.A.	Other related party		580,000			145,000				580,000	145,000
Chili S.p.A.	Other related party	2,500,000	5,437,200			3,294			2,100,000	4,051,058	1,857,000
Total		**3,127,515**	**8,449,968**	**854**	**178,527**	**916,185**	**294**	**2,315,919**	**2,100,000**	**5,099,932**	**2,641,146**

Sales to and purchases from related parties are carried out at arms' length conditions. For the year ended 31 December 2019, the Group had no impairments on contracts with related parties. The impairment test is carried out yearly, at each reporting date, considering the financial position of the related party and the market where it operates.

Related parties changed compared to the previous year as a result of the change in the consolidation scope. In detail, Lea S.r.l. and Lavazza Eventi S.r.l. were excluded from the Lavazza consolidation scope and included in that of the Finlav Group (parent company of Luigi Lavazza S.p.A.), whereas Immobiliare I.N.N.E.T. S.r.l. was consolidated on 1 January 2019. In addition, Lavazza Entertainment started operations in 2019 and is part of the Finlav Group

Information on the consideration owed to the independent auditors of the annual accounts pursuant to the new paragraph 1 of Article 38 of Legislative Decree 127/91

The following table presents the total amount of the consideration owed to EY S.p.A. for conducting statutory independent audits of the annual accounts of the Financial Statements of the Parent Company, Luigi Lavazza S.p.A., its Italian subsidiaries Cofincaf S.p.A., Lavazza Capital S.r.l., Nims S.p.A. and Lavazza Professional Holding Europe S.r.l, and, separately, a statutory independent audit of the Consolidated Financial Statements of the Lavazza Group for the year ended 31 December 2019, as well as the total amount of consideration accrued for other minor services relating to methodological support activities.

ACTIVITY	COMPANY	2019
Audit of annual accounts	Luigi Lavazza S.p.A.	77,000
	Consolidated Lavazza Group	82,000
	Cofincaf S.p.A.	24,000
	Lavazza Capital S.r.l.	18,000
	Nims S.p.A.	25,000
	Lavazza Professional Holding Europe S.r.l.	5,000
Total		**231,000**

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16. POST BALANCE SHEET EVENTS

The first few months of 2020 were characterised by the progressive spread of Covid-19.
This health emergency initially affected China, resulting in a business shutdown in January and February 2020, with severe repercussions on trade and access to finished and semi-finished goods manufactured in China.
In March, the spread of the epidemic began to take on a global dimension, resulting in the introduction of large-scale restrictions on commerce and industry, starting in Italy. This situation could have adverse consequences, in both the near and medium term, within a framework of macroeconomic deterioration at the national and global level. Given the environment of general uncertainty, there is no basis for determining the impact of the epidemic, which, depending on how transmission progresses, might have unforeseeable and potentially material effects on future commercial and operational activities, and thus on the Group's financial performance and financial position.

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INDEPENDENT AUDITORS' REPORT

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Luigi Lavazza S.p.A.

Consolidated financial statements as at December 31, 2019

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

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

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Luigi Lavazza Group (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit and loss, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

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

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

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

EY S.p.A.
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Capitale Sociale Euro 2.525.000,00 i.v.
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The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of Luigi Lavazza S.p.A. are responsible for the preparation of the Report on Operations of Luigi Lavazza Group as at December 31, 2019, 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, 2019 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the consolidated financial statements of Luigi Lavazza Group as at December 31, 2019 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 14, 2020

EY S.p.A.
Signed by: Stefania Boschetti
(Auditor)

This report has been translated into the English language solely for the convenience of international readers.

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LUIGI LAVAZZA S.p.A.
Financial Statements
at 31 December 2019

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ACCOUNTING STATEMENTS

Balance Sheet - Assets

		31.12.2019		31.12.2018	
A)	CALLED-UP SHARE CAPITAL NOT PAID		0		0
B)	FIXED ASSETS				
I)	INTANGIBLE ASSETS				
1)	Start-up and expansion costs	0		0	
2)	Development costs	3,449,814		4,642,518	
3)	Industrial patents and rights for exploitation of intellectual property	353,750		583,333	
4)	Concessions, licenses, trademarks and similar rights	242,779,330		258,129,553	
5)	Goodwill	288,470,220		306,327,899	
6)	Intangible assets in process and advances	9,036,876		6,436,569	
7)	Other	26,317,563		16,067,057	
	TOTAL INTANGIBLE ASSETS	570,407,553		592,186,929	
II)	TANGIBLE ASSETS				
1)	Land and buildings	88,048,929		95,496,990	
2)	Plants and machinery	116,669,328		87,970,275	
3)	Industrial and commercial equipment	67,855,097		55,218,552	
4)	Other assets	11,928,295		12,005,433	
5)	Tangible assets in process and advances	28,779,255		35,617,073	
	TOTAL TANGIBLE ASSETS	313,280,904		286,308,323	
III)	FINANCIAL ASSETS				
1)	Investments in:				
	a) subsidiaries	1,213,440,777		1,109,591,454	
	b) associates	25,000		25,000	
	d-bis) other companies	7,319,881		7,319,881	
2)	Receivables:				
	a) from subsidiaries	172,404,294		334,804,152	
	d-bis) from others	925,948		949,167	
4)	Financial derivative assets	3,471,190		297,291	
	TOTAL FINANCIAL ASSETS	1,397,587,090		1,452,986,945	
	TOTAL FIXED ASSETS (B)		2,281,275,547		2,331,482,197

		31.12.2019		31.12.2018	
C)	CURRENT ASSETS				
I)	INVENTORIES				
1)	Raw material, ancillaries and consumables	173,577,692		166,835,336	
2)	Work-in-progress and semi-finished goods	1,571,944		1,435,585	
4)	Finished products and goods	88,136,723		87,313,232	
5)	Advance payments	444,230		619,139	
	TOTAL INVENTORIES	263,730,589		256,203,292	
II)	RECEIVABLES				
1)	Trade receivables				
	a) due within one year	119,137,736		138,721,008	
2)	from subsidiaries				
	a) due within one year	265,612,265		232,808,187	
3)	from related companies				
	a) due within one year	194,236		0	
4)	from parent companies				
	a) due within one year	12,526,654		18,703,442	
5-bis)	Tax receivables	12,958,553		22,899,398	
5-ter)	Deferred tax assets	30,873,507		33,082,401	
5-quater)	Other receivables				
	a) due within one year	14,433,753		8,080,422	
	TOTAL RECEIVABLES	455,736,704		454,294,858	
III)	CURRENT FINANCIAL ASSETS				
5)	Derivative financial assets	24,211,558		5,360,870	
6)	Other securities	0		10,000,000	
	TOTAL FINANCIAL ASSETS OTHER THAN FIXED ASSETS	24,211,558		15,360,870	
IV)	CASH AND CASH EQUIVALENTS				
1)	Bank and post office deposits	247,295,896		92,463,425	
3)	Cash and valuables on hand	58,362		43,275	
	TOTAL CASH AND CASH EQUIVALENTS	247,354,258		92,506,700	
V)	TANGIBLE ASSETS HELD FOR SALE	5,236,337		0	
	TOTAL CURRENT ASSETS (C)		996,269,446		818,365,720
D)	PREPAYMENTS AND ACCRUED INCOME		33,660,088		47,576,624
	TOTAL ASSETS		3,311,205,081		3,197,424,541

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Balance Sheet - Equity and Liabilities

		31.12.2019	31.12.2019	31.12.2018	31.12.2018
A)	EQUITY				
I.	SHARE CAPITAL	25,000,000		25,000,000	
II.	SHARE PREMIUM ACCOUNT	223,523		223,523	
III.	REVALUATION RESERVES	361,721,428		361,721,428	
IV.	LEGAL RESERVE	5,000,000		5,000,000	
V.	STATUTORY RESERVES	0		0	
VI.	OTHER RESERVES				
	Extraordinary reserve	203,611,325		203,611,325	
	Reserve Re. Art.18 Presidential Decree 675/77	16,892		16,892	
	Reserve Re. Art. 55 law 526 of 7/8/82	86,235		86,235	
	Reserve Re. Law 46 of 17/02/82	90,785		90,785	
	Reserve Re. Art. 55 Presidential Decree 917/86	212,481		212,481	
	Reserve Re. Law 130 of 26/04/83	162,463		162,463	
	Reserve Re. Law 488 of 19/12/92	380,808		380,808	
	Restricted reserve arising from net exchange gains	0		0	
	Merger surplus reserve	56,953,074		56,953,074	
VII.	HEDGE RESERVE FOR EXPECTED CASH FLOWS	6,086,726		(14,854,660)	
VIII.	RETAINED EARNINGS	1,439,136,282		1,416,449,786	
IX.	PROFIT FOR THE YEAR	106,186,603		57,786,500	
X.	NEGATIVE RESERVE FOR TREASURY SHARES IN PORTFOLIO	(17,732,533)		(17,732,533)	
	TOTAL EQUITY		2,187,136,092		2,095,108,107
B)	PROVISIONS				
1)	Provisions for pension and similar benefits	2,974,278		2,958,815	
2)	Provisions for taxes, including deferred	10,074,201		2,453,137	
3)	Financial derivative liabilities	12,421,805		11,223,091	
4)	Other	70,396,989		54,508,809	
	TOTAL PROVISIONS		95,867,273		71,143,852
C)	EMPLOYEE TERMINATION INDEMNITIES				
			13,715,649		14,707,837

		31.12.2019	31.12.2019	31.12.2018	31.12.2018
D)	LIABILITIES				
4)	Payables to banks				
	a) due within one year	125,286,584		100,537,544	
	b) due after one year	463,753,017		588,038,415	
6)	Advance payments	632,381		2,369,634	
7)	Trade payables	248,612,905		234,568,294	
9)	Payables to subsidiaries	112,280,679		9,834,767	
10)	Payables to related companies	2,456,942		0	
11)	Payables to the Parent	0		0	
12)	Tax payables	3,758,996		25,868,052	
13)	Social security liabilities	5,741,593		4,904,526	
14)	Other liabilities	46,654,146		43,497,913	
	TOTAL LIABILITIES		1,009,177,243		1,009,619,145
E)	ACCRUALS AND DEFERRED INCOME		5,308,824		6,845,600
	TOTAL EQUITY AND LIABILITIES		3,311,205,081		3,197,424,541

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Statement of Profit or Loss

		YEAR 2019		YEAR 2018	
A)	VALUE OF PRODUCTION				
1)	Net revenues	1,512,354,442		1,526,367,429	
2)	Changes in inventories of work-in-process, semi-finished and finished goods	959.850		2.771.958	
5)	Other income and revenues:				
	a) miscellaneous	95,321,103		86,410,873	
	b) grants	3,311,267		3,077,293	
	TOTAL VALUE OF PRODUCTION		1,611,946,662		1,618,627,553
B)	COSTS OF PRODUCTION				
6)	Raw materials, ancillaries, consumables and goods	732,154,885		751,543,529	
7)	Services	521,123,292		513,583,633	
8)	Use of third-party assets	21,494,370		18,955,411	
9)	Personnel costs:				
	a) wages and salaries	109,476,457		94,397,646	
	b) social security costs	31,011,573		29,291,282	
	c) severance indemnities	8,741,301		7,409,264	
	e) other costs	7,935,065		6,520,432	
10)	Amortisation, depreciation and write-downs				
	a) amortisation	40,921,688		39,283,171	
	b) depreciation	37,722,696		31,921,484	
	c) other write-downs	5,059,155		1,224,376	
	d) write-downs of receivables included among current assets and of cash and cash equivalents	1,344,963		1,539,921	
11)	Changes in inventories of raw material, ancillaries, consumables and goods	(6.742.355)		20.055.942	
12)	Provisions for risks	16,124,686		24,044,508	
13)	Other provisions	388,382		3,692,993	
14)	Miscellaneous operating costs	16,783,379		19,937,976	
	TOTAL COSTS OF PRODUCTION		1,543,539,537		1,563,401,568
	BALANCE BETWEEN VALUE AND COSTS OF PRODUCTION (A - B)		68,407,125		55,225,985

		YEAR 2019		YEAR 2018	
C)	FINANCIAL INCOME AND EXPENSE				
15)	Income from investments				
	- in subsidiaries and associates	41,532,409		16,912,676	
16)	Other financial income				
	a) from non-current receivables				
	- from subsidiaries and associates	6,691,119		1,058,517	
	d) income other than the preceding ones				
	- from subsidiaries and associates	3,261		0	
	- from companies controlled by the Parent	294		0	
	- from other companies	124,229		1,043,690	
17)	Interest and other financial expense				
	- paid to subsidiaries and associates	(629,780)		(664,500)	
	- paid to companies controlled by the Parent	(853)		0	
	- paid to other companies	(6,081,914)		(3,614,927)	
17-bis)	Exchange gains and losses	9,224,822		(3,836,424)	
	TOTAL FINANCIAL INCOME AND EXPENSES		50,863,587		10,899,032
D)	VALUE ADJUSTMENTS TO FINANCIAL ASSETS				
18)	Write-ups				
	a) of equity investments	0		376,843	
	d) of derivatives	2,567,494		12,227,388	
19)	Write-downs:				
	a) of equity investments	(3,047,297)		(3,642,784)	
	b) of financial fixed assets other than investments	0		0	
	c) of securities included in current assets other than investments	0		0	
	d) of derivatives	(3,476,655)		(824,039)	
	TOTAL VALUE ADJUSTMENTS TO FINANCIAL ASSETS		(3,956,458)		8,137,408
	PROFIT BEFORE TAXES (A-B + -C + -D + -E)		115,314,254		74,262,425
22)	Current, deferred and prepaid income taxes for the year				
	Current taxes		(11,376,694)		(25,926,698)
	Deferred tax liabilities		(1,441,228)		0
	Deferres tax assets		3,678,724		9,429,159
	Reversals of deferred tax liabilities		11,547		21,614
23)	PROFIT FOR THE YEAR		106,186,603		57,786,500

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Statement of Cash Flows

			YEAR 2019	YEAR 2018
A		CASH FLOWS FROM OPERATING ACTIVITIES		
		Profit (loss) for the year	106,186,603	57,786,500
		Income taxes	9,127,651	16,475,925
		Interest expense/(income)	(9,331,178)	6,013,644
		(Dividends)	(41,532,409)	(16,912,676)
		(Gains) / Losses from the disposal of assets	0	(33,387)
	1	**Profit (loss) for the year before income taxes, interest, dividends and gains / losses from disposal**	**64,450,667**	**63,330,006**
		Adjustments for non-monetary items that have no offsetting entry in net working capital		
		Provisions	49,968,343	50,021,297
		Provision - severance indemnities paid	0	284,706
		Amortisation and depreciation	78,644,384	71,204,655
		Write-downs/write-ups of investments and derivatives	3,047,297	3,265,941
		Other impairment losses	4,794,404	1,192,116
		Value adjustments to derivative financial assets and liabilities that do not entail monetary movements	20,941,386	(12,718,086)
		Other adjustments for non-monetary items	0	0
	2	**Cash flow before changes in net working capital**	**221,846,481**	**176,580,635**
		Changes in net working capital		
		Decrease/(increase) in inventories	(12,763,634)	17,925,525
		Decrease/(increase) in trade receivables	19,583,272	6,069,192
		Decrease/(increase) in receivables from subsidiaries	(27,454,172)	(30,808,469)
		Decrease/(increase) in receivables from associates	(194,236)	0
		Decrease/(increase) in receivables from Parent		
		Increase/(decrease) in trade payables	12,307,358	11,283,110
		Increase/(decrease) in payables to subsidiaries	(719,112)	(4,836,768)
		Increase/(decrease) in payables to associates	2,456,942	0
		Increase/(decrease) in payables to Parent	0	0
		Decrease/(increase) in prepayments and accrued income	13,916,536	(11,742,639)
		Increase/(decrease) in accruals and deferred income	(1,536,776)	(171,923)
		Other changes in net working capital	(12,319,349)	9,143,807
	3	**Cash flow after changes in net working capital**	**215,123,310**	**173,442,470**
		Other adjustments		
		Interest received/(paid)	9,331,178	(6,013,644)
		(Income taxes paid)	(2,950,863)	4,124,646
		Dividends received	41,532,409	16,912,676
		(Use of provisions)	(25,244,922)	(8,045,782)
		(Severance indemnities paid)	(992,188)	(809,871)
		Total cash flow from operating activities (A)	**236,798,924**	**179,610,495**

		YEAR 2019	YEAR 2018
B	CASH FLOWS FROM INVESTING ACTIVITIES		
	Tangible assets		
	(Investments)	(74,916,689)	(60,173,992)
	Disposal price	5,602,814	167,034
	Intangible assets		
	(Investments)	(19,318,118)	(14,708,199)
	Disposal price	0	0
	Financial assets		
	(Investments)	(111,071,518)	(446,962,998)
	Disposal price	163,424,076	0
	Business unit acquisitions	0	0
	Current financial assets		
	(Investments)	(8,850,688)	(3,247,993)
	Disposal price	0	0
	Total cash flows from investing activities (B)	**(45,130,123)**	**(524,926,148)**
C	CASH FLOWS FROM FINANCING ACTIVITIES		
	Third-party funds		
	Increase (decrease) in short-term payables + other than to banks	(99,536,358)	324,575,113
	New loans	0	0
	Increase (decrease) in financial payables to subsidiaries	97,815,118	1,044,146
	Own funds		
	(Dividends (and advance dividends) paid)	(35,100,003)	(77,175,006)
	Total cash flows from financing activities (C)	**(36,821,243)**	**248,444,253**
	Increase (decrease) in cash and cash equivalents (A + - B + - C)	**154,847,558**	**(96,871,400)**
	Cash and cash equivalents at year-start	**92,506,700**	**189,378,100**
	Cash and cash equivalents at year-end	**247,354,258**	**92,506,700**

The Company has prepared the statement of cash flows, which reconciles the main Profit or Loss and Balance Sheet changes during the year. It highlights the values of the financial resources that the Company required in the year, as well as their use.

It should be noted that in preparing the Statement of Cash Flows, pursuant to OIC 10, the Company has adopted the indirect method whereby profit for the year is adjusted for non-monetary components.

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NOTES TO THE FINANCIAL STATEMENTS OF LUIGI LAVAZZA S.p.A.

STRUCTURE AND CONTENTS

These Financial Statements, composed of the Balance Sheet, Statement of Profit or Loss, Statement of Cash Flows and the Notes to the Financial Statements, have been prepared in accordance with Legislative Decree 127 of 9 April 1991, as amended by Legislative Decree 6 of 17 January 2003 and Legislative Decree 139 of 18 August 2015. They provide a fair and true representation of the Company's financial position, operating performance and cash flows for the year.
The Single Report on Operations in the previous pages accompanies these Financial Statements.
The financial statements have been prepared in compliance with Articles 2423-*ter*, 2424, 2424-*bis*, 2425, 2425-*bis*, 2425-*ter* of the Italian Civil Code. Figures are stated in units of Euro.
The Notes to the financial statements provide the information required by Articles 2427 and 2427-*bis* of the Italian Civil Code. Amounts are denominated in units of Euro, unless stated otherwise in the comments of the related financial statement items.
Items omitted from the financial statements are understood to have nil balances in both the reporting year and the previous year.

Basis of preparation and measurement

The Financial Statements for the year ended 31 December 2019 have been prepared in compliance with the Italian Civil Code, interpreted and supplemented by the accounting standards drawn up and revised by the Italian Accounting Standard Setter (OIC) as amended and extended by Legislative Decree 139/2015 of 1 January 2016 and, in the absence of the former, and where no conflict exists, the standards issued by the International Accounting Standards Board (IASB).
In accordance with Articles 2423 and 2423-*bis* of the Italian Civil Code, the Financial Statements have been prepared on the basis of the going concern assumption, according to the general principles of prudence, accrual basis accounting and materiality, while taking account of the prevalence of the substance of a transaction or contract.
The criteria applied in measuring line items and determining adjustments are consistent with the provisions of the Italian Civil Code and are primarily set out under Article 2426.

The most significant measurement criteria adopted are illustrated below.

Intangible assets

Intangible assets are recognised at purchase or production cost, including ancillary charges and directly attributable costs, adjusted in prior years for revaluations pursuant to Laws 408/1990, 342/2000, 350/2003 and 266/2005.
The cost of intangible assets is systematically amortised on a straight-line basis each year, considering the residual useful life of the asset. The rates applied are set out in the section of the Notes on assets.

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Start-up and expansion costs

Start-up and expansion costs, where present, have been recognised among assets with the consent of the Board of Statutory Auditors and are amortised over a period of no more than five years.

Development costs

Development costs involve a plan or project for the production of new products or processes and are amortised based on their useful lives; in exceptional cases in which it is not possible to estimate their useful lives, they are amortised over a period of no more than five years.
Development costs are recognised among assets, with Statutory Auditors' approval, only if the cost attributable to the asset during its development can be reliably measured, the product or the process is feasible from a technical and commercial standpoint, it is probable that there will be future economic benefits and there are sufficient resources to complete the development.

Rights for industrial patents and rights for exploitation of intellectual property

Patents have been recognised at purchase or internal production cost, including any additional costs incurred for administrative and application procedures, and are amortised according to their useful lives, which may not exceed the legal or contractual limit.

Concessions, licences, trademarks and similar rights

Concessions, licences, trademarks and similar rights, where purchased for consideration, are recognised at the price paid by the Company to obtain them and are amortised according to their useful lives, which may not exceed the legal or contractual limit and can never exceed 20 years.

Goodwill

Goodwill is recognised among assets, with the consent of the Board of Statutory Auditors, if it is purchased for consideration, and is amortised according to its useful life.
The Company has exercised the option for prospective application, pursuant to Article 12, paragraph 2, of Legislative Decree 139/2015, of the changes to the method for determining the amortisation period for goodwill.
Consequently, goodwill recognised prior to the financial year beginning on 1 January 2016 has been amortised over a period of no more than five years or, where the useful life was greater, over a period of no more than 20 years.
Goodwill recognised on or after 1 January 2016 has been amortised according to its useful life, with a maximum limit of 20 years, and over a period of no more than ten years when its useful life cannot be estimated reliably.

Fixed assets in progress and advances

Fixed assets in progress and advances include intangible assets in progress, initially recognised on the date on which the Company incurs the first (internal and external) costs for the production of the asset and advances to suppliers towards the purchase of intangible assets, initially recognised when the obligation to pay the amounts concerned arises. Such costs continue to be carried as fixed assets until ownership of the right is acquired or the project is completed. When these conditions occur, the amounts in question are classified to the appropriate item of intangible assets.

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 ancillary charges and direct and indirect costs, to the extent reasonably attributable to the asset, from the period of production and for its remaining useful life.
Assets acquired through contribution or merger are recognised at the contribution value established in the pertinent documents on the basis of the related appraisal.
The cost of internally produced assets includes all costs directly attributable to the asset, in addition to the share of general production costs reasonably attributable to the asset with regard to the production period, until the asset is ready for use.
Ordinary maintenance costs are recognised to the statement of profit or loss for the financial year in which they are incurred.
The costs of improvements and incremental expenses, including extraordinary maintenance costs, in addition to the costs of leasehold improvements capable of being separated from the assets in question, which give rise to a significant, measurable increase in the capacity, productivity or security of the assets, or which extend their useful lives, qualify as capitalisable costs and are accounted for as an increase in the value of the assets to which they refer, within the limits of the recoverable amount of the asset.

Tangible assets are systematically depreciated each year on a straight-line basis. Depreciation is based on economic and technical rates taking account of the remaining useful lives of the assets. The rates applied are indicated in the Notes on Assets.
If an element of tangible assets is made up of different components with different useful lives, such components are recognised separately only if they are significant components.
Land is not subject to depreciation.

Assets held for sale and obsolete assets

When it is decided to dispose of a tangible asset, the latter is reclassified to current assets and then measured at the lesser of its net carrying amount and the presumed realisable value based on market performance, i.e., the selling price in the course of normal operation, net of direct selling and disposal costs. Moreover, assets intended for sale are no longer subject to depreciation.
Obsolete assets and, more generally, assets that will no longer be used or useable in the production cycle on a permanent basis, are measured at the lesser of net carrying amount and recoverable amount, and are no longer subject to depreciation.

Grants towards 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 "Other income and revenues" of the statement of profit or loss, and then deferred to subsequent years by recognising deferred income. Amortisation and depreciation of fixed assets are therefore calculated on the basis of the value of the assets, gross of the grants received.

Impairment losses on fixed assets

At each reporting date, the Company assesses whether there are any indications that tangible and intangible assets (including goodwill) may have become impaired.
If such signs exist, the carrying amount of the asset is reduced to its recoverable amount, determined as the greater of fair value, net of costs to sell and value in use. Fair value is represented, firstly, by a price arising from a binding sale agreement in a transaction between independent counterparties, net of the costs directly attributable to the sale. In the absence of a binding agreement, it is verified whether there is a current offering price in an active market. If there is no binding sale agreement or market of reference, fair value is based on the best information available to the entity and which reflects the net amount that could be realised from sale, at the reporting date, in a free transaction between informed, willing parties. 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 over a 3-5 year time horizon, according to a discount rate that reflects the current market assessment of the time value of money and the specific risks of the asset. An impairment loss is recognised if the recoverable amount is less than the net carrying amount.
Impairment losses are reversed if the grounds for recognising them no longer apply. The amount of the reversal cannot exceed the value that would have resulted if the impairment loss had never been recognised. No reversals are recognised on goodwill and capitalised expenses.

Finance leases

The accounting treatment of lease transactions is consistent with the customary statutory practice in Italy (so-called "equity method") and involves the recognition of rent payments in the statement of profit or loss as they accrue.
The adoption of the finance lease method would have entailed the recognition in the statement of profit or loss, in lieu of 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 remaining useful life of that property, as well as the recognition of the leased property as an asset and the remaining debt as a liability.
Pursuant to Article 2427, paragraph 1(22), of the Italian Civil Code, these Notes include information about the effects of the adoption of the finance lease method:

- the total amount at which the leased assets would have been carried at the reporting date, had they been considered fixed assets;
- the depreciation, impairment and reversals that would have accrued during the year;
- the present value of future lease payments, determined using the effective interest rate of the finance lease agreement;
- the finance expense accrued during the year, determined according to the effective interest rate.

Investments and financial receivables

Investments

These are equity interests in other companies and they are divided into investments in subsidiaries and associates, as defined in Article 2359 of the Italian Civil Code, and equity investments in other companies.
These are measured at cost, represented by the purchase price, the sums paid for subscription or the value attributed to the contributed assets, including ancillary costs.
Investments intended to be held for the long term are recognised among financial assets.

Investments are reviewed in order to determine the operating performance and financial position of the investees. Such analyses are essentially based on the results achieved by the investees and their equity, as stated in their most recent financial statements.
If a comparison of the cost to the interest in equity held indicates that an investment has become impaired, it is written down accordingly. Cost is normally reduced if an investee has recorded a loss or the value of an investment has otherwise decreased and profits or other favourable events sufficient to cover the losses are not expected in the near future. If the reasons for impairment subsequently cease to exist, the original value is reversed.

Investments not classified as fixed assets are measured at the lesser of purchase cost and realisable value according to market trends.

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Financial receivables

Pursuant to Article 12, paragraph 2, of Legislative Decree 139/2015, the Company has opted for prospective application of the new basis of measurement for receivables at amortised cost and the discounting of receivables.

Consequently, financial receivables recognised prior to 1 January 2016 are carried at their nominal value, adjusted for impairment losses, if any. If the reasons for impairment subsequently cease to exist, the value is reversed up to the original value.

Financial receivables recognised on or after 1 January 2016 are measured at amortised cost, taking account of the time factor and their presumed realisable value.
Transaction costs, commissions payable and receivable, where applicable, and all differences between the initial value and nominal value at maturity are included in the calculation of amortised cost by using the effective interest criterion over the expected duration of the receivable.
It is possible not to apply the amortised cost criterion to receivables when its application is not material to a true and fair representation. The Company has exercised this option for these financial statements.

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 of excess liquidity that is not intended for being held by the Company for the long term — are measured at the lesser of purchase cost, including ancillary charges recognised on an accrual basis pursuant to OIC 20, and presumable market value.

Inventories

Inventories are recognised at the lesser of either purchase and/or production cost and expected realisable value based on market trends, taking into account the related ancillary selling costs.

The cost of inventories, measured based on the average cost for homogeneous category, includes directly connected ancillary charges. The production cost includes directly attributable costs and the reasonably attributable share of indirect production costs, with the inclusion of finance expense up to the limit of the realisable value of the asset.

In order to adequately represent the value of inventories in the financial statements, and to take into consideration the impairment losses of obsolete and slow-moving material, an obsolescence allowance on inventories has been recognised, which is directly deducted from the value of inventories.

The inventory write-down provision reflects the Company's estimate of expected impairment losses, as determined in light of past experience, as well as the historic trend and the expected market trend, including following specific actions undertaken by the Company.

Receivables and payables

Pursuant to Article 12, paragraph 2, of Legislative Decree 139/2015, the Company has opted for prospective application of the new basis of measurement for receivables at amortised cost and the discounting of receivables.
Consequently, receivables recognised prior to the year beginning on 1 January 2016 are carried at their presumed realisable value, which corresponds to the difference between the nominal amounts of the receivables, adjusted by bad debt provisions, which are directly deducted from the items to which they refer, whereas payables are carried at their nominal values.

Receivables and payables recognised on or after 1 January 2016 are measured at amortised cost, considering the time factor and, in the case of receivables, their presumed realisable value.
The value at initial recognition is represented by the nominal value, net of all premiums, discounts, allowances and any costs directly attributable to the transaction that gave rise to the receivable or payable.

Transaction costs, commissions payable and receivable, where applicable, and all differences between the initial value and nominal value at maturity are included in the calculation of amortised cost by using the effective interest method.
It is possible not to apply the amortised cost criterion when its application is not material to a true and fair representation.

The estimate of the inventory write-down provision is based on the Company's expected impairment losses, as determined in light of past experience and also prospectively considering the probability of counterparty's insolvency, the loss rate in case of insolvency and the exposure accrued at the moment of default.

Any factored receivables are derecognised if, and only if, essentially all risks associated with the receivable have been transferred. Otherwise, they continue to be carried forward, and a financial liability of equal amount is recognised to account for the advance received.

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Cash and cash equivalents

Cash and cash equivalents are recognised at nominal value. Any amounts in foreign currencies are measured at the current exchange rate at year-end.

Accruals and deferrals

Accruals and deferrals include portions of costs and revenues common to two or more consecutive financial years whose amount is determined using the accruals concept.

Provisions for risks and charges

Provisions for risks and charges are allocated to cover losses or liabilities of a stated nature or certain or probable existence, the amount or date of which could not be identified at year-end. Provisions reflect the best possible estimate on the basis of available elements.
Risks for which it is merely possible that a liability will emerge are disclosed in the Notes, without recognising an accrual to a provision for risks and charges.

Provisions for pension and similar benefits

Provisions for pension and similar benefits represent amounts set aside for supplementary pension benefits, other than employee termination indemnities, and one-off indemnities due to employees and independent contractors by law or contract.

Provisions for taxes, including deferred

The item refers to liabilities for probable taxes the amount or date of payment of which is unknown, on the basis of assessments or disputes with the tax authorities. The provision for deferred taxes includes deferred income tax liabilities due to temporary differences between statutory profit and taxable profit.

Employee termination indemnities

The provision is determined according to applicable legislation and collective and supplementary company labour contracts. Law 296 of 27 December 2006 (the 2007 Financial Law) introduced the rules for employee termination indemnities accrued from 1 January 2007. As a result of the supplementary pension reform:

- employee termination indemnities accrued up to 31 December 2006 remained with the Company;
- employee termination indemnities accrued from 1 January 2007, at the employee's discretion, have been allocated to supplementary pension schemes or kept with the Company, which has transferred the indemnities to the Treasury Fund established by the INPS.

Indemnities accrued from 1 January 2007 continue to be booked to item B9 c) "employee termination indemnities". Item C "employee termination indemnities" of the balance sheet represents the residual provision carried at 31 December 2006, revalued as appropriate in accordance with the law. Item D13 "social security liabilities" includes the amount accrued at year-end in respect of the share of employee termination indemnities still to be paid to pension fund and social security institutions.

Commitments, guarantees and contingent liabilities

Operating events that, despite not having a quantitative influence on assets and liabilities or financial performance when recognised, could have effects at a later date, are disclosed at the end of the Notes. Such items are recognised at their nominal value or the actual commitment.

Net 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.

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Dividends

Dividends are recognised in the year in which the investee resolves on dividend distribution.

Financial income and expense

All financial income and expense associated with the Company's financial operations are recognised on an accrual basis.
Gains and losses on the translation of items in foreign currencies are booked to item C.17-*bis* "exchange gains and losses" of the statement of profit or loss.

Income taxes for the year

Income taxes are recognised according to an estimate of taxable income in application of tax laws in force, while taking account of applicable exemptions and tax credits to which the Company is entitled.
The Company participates in the national tax consolidation programme pursuant to Articles 117 and 129 of the Consolidated Law on Income Taxes (TUIR). The parent company, Finlav S.p.A., acts as consolidating company and calculates a single taxable profit or loss for the group of companies participating in tax consolidation, which thus 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 pricing

Prices applied in intra-group transactions were determined in accordance with the OECD guidelines — as set forth by the Company also in the National Documentation prepared in accordance with Article 1, paragraph 6, of Legislative Decree 471 of 18 December 1997. In detail, mention should be made that on 19 December 2016 the Company signed an Advance Pricing Agreement for the five-year period 2016-2020 with the Italian Revenue Authority concerning the methods for calculating the fair market value of the assets disposed of to its European subsidiaries (France, the UK, Sweden and Austria). The aforementioned Agreement is the result of the renewal of the previous Advance Pricing Agreement signed on 12 December 2013 for the three years 2013, 2014 and 2015. The transactions with the German subsidiary, already subject to a separate procedure (initiated by application dated 27 November 2014) aimed at entering into a bilateral Advance Pricing Agreement between Italy and Germany, were excluded from the scope of that renewal.
In addition, on 15 December 2016, an application was filed for a bilateral Advance Pricing Agreement between Italy and the United States to govern the transactions with the U.S. subsidiary Lavazza Premium Coffees Corp. In this regard, it should be noted that the competent tax authorities met to reach a prior agreement for the definition of transfer prices between Italy and the USA for the five-year period 2016–2020. This agreement was formalised and signed with the US tax authorities in December 2019.

Currency conversion criteria

Transactions in currencies other than the Euro are recognised at the spot exchange rate.
Assets and liabilities in currencies other than the Euro, except non-monetary assets and liabilities (i.e., inventories, tangible and intangible assets, as well as investments and non-current securities), are analytically adjusted to the exchange rate at year-end, directly recognised through profit or loss. Any net gains arising from the year-end exchange rate adjustment for items in foreign currency contribute to the formation of the net result for the year and, upon approval of the financial statements and proposal for the allocation of the net result, are recognised in a restricted reserve until the profit is realised.

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Derivatives

In the course of its business, the Company is exposed to the following market risks:

- interest rate risk: this risk is tied to the variability of interest rates payable on floating-rate financing and lease contracts, driven by the fluctuation of market interest rates (Euribor);

- exchange risk: this risk is tied to the variability of revenue and costs denominated in foreign currencies, driven by the fluctuation of the exchange rates between the Euro and the respective foreign currencies; at present, the main exposure to foreign-exchange risk relates to the risk tied to purchases of green coffee denominated in U.S. dollars (USD);

- price risk: the risk associated with the variability of the cost of purchasing green coffee, driven by the performance of market coffee prices quoted on the major international markets.

In this framework, the Company regularly enters into derivatives (interest-rate swaps, FX forwards, FX options, commodity futures, commodity forwards and swaps, and commodity options) with the aim of mitigating its exposure to the risks described, in accordance with the established risk management objectives and strategies, formally defined in the Group's policies and procedures.
Within the framework of Italian GAAP (OIC), the accounting treatment of derivatives is subject to OIC 32 – *Derivatives*, which contains specific provisions that govern the representation in the financial statements of transactions entered into for hedging purposes (i.e., hedge accounting).
In accordance with OIC 32, the general rule that applies to the accounting treatment of derivatives calls for representation in the balance sheet at fair value, with changes in value recognised periodically in the statement of profit or loss.
If the derivatives have been entered into for hedging purposes and certain formal and substantive requirements have been met (the hedging relationship is documented and the efficacy of the hedge has been periodically proved), hedge accounting may be applied. In essence, the purpose of hedge accounting is to align the timing and approach to recognising the economic effects of hedging derivatives with those of the underlying hedging transactions.

Interest-rate risk management currently involves the use of interest-rate swap (IRS) contracts, whereby the interest rates on the underlying liabilities (loans or leases) are transformed from floating to fixed.
Derivatives contracted to hedge against interest-rate risk pursue the objective of fixing the expected value of the future interest flows generated by the underlying liabilities. Accordingly, for the purposes of OIC 32, they qualify for cash flow hedge accounting treatment.
The hedging relationship is formally designated when the hedging instrument is contracted and is maintained until the maturity of the contract, unless the hedge is renegotiated or unwound in advance.
A hedging instrument is designated for accounting purposes for its full fair value. Consequently, the full fair value of such instruments is considered when determining the effective portion of the hedge to be suspended in equity, according to cash flow hedging rules.

Foreign-exchange risk is managed in the case of both the primary source of exposure, i.e., purchases of green coffee denominated in U.S. dollars, and sales in foreign currencies on various international markets (directly to customers/distributors or indirectly through trading companies).

The Company avails itself of the following types of derivatives to mitigate this risk: FX forwards, FX options and option structures.
Price risk is managed in the case of the exposure resulting from the purchases of green coffee, the price of which is fixed with commodity suppliers on the basis of market quotations for coffee futures contracts on the major international exchanges.
Raw material purchasing costs are therefore exposed to the risk of fluctuation of prices on the futures market of reference until the date of the fixing of the benchmark price with the supplier, when all components of the purchase price become known and no longer subject to modification.
The Company avails itself of the following types of derivatives to mitigate this risk: commodity futures, commodity forwards and swaps, commodity options and option structures.
In the tables on derivatives reported in this document, notional values are expressed in Euro at the date contracts on such instruments were entered into.

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BALANCE SHEET - ASSETS

Fixed assets

Intangible fixed assets

The following table reports changes in intangible assets:

BALANCE SHEET ITEMS	BALANCE AT 01.01.2019	INCREASES	RECLASSIFICATIONS	(DECREASES)	BALANCE AT 31.12.2019
DEVELOPMENT COSTS					
Gross value	10,298,601	21,877	760,858	0	11,081,336
Write-ups	0	0	0	0	0
(Write-down provision)	(170,776)	0	0	0	(170,776)
(Accumulated amortisation)	(5,485,307)	(1,975,439)	0	0	(7,460,746)
Net value	**4,642,518**	**(1,953,562)**	**760,858**	**0**	**3,449,814**
INDUSTRIAL PATENT AND INTELLECTUAL PROPERTY RIGHTS					
Gross value	873,394	5,000	0	0	878,394
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated amortisation)	(290,061)	(234,583)	0	0	(524,644)
Net value	**583,333**	**(229,583)**	**0**	**0**	**353,750**
CONCESSIONS, LICENSES AND SIMILAR RIGHTS					
Gross value	190,302,646	1,321,445	0	0	191,624,091
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated amortisation)	(48,870,594)	(9,557,077)	0	0	(58,427,671)
Net value	**141,432,052**	**(8,235,632)**	**0**	**0**	**133,196,420**
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)	(337,727,409)	(7,114,591)	0	0	(344,842,000)
Net value	**116,697,501**	**(7,114,591)**	**0**	**0**	**109,582,910**
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)	(60,204,416)	(17,857,679)	0	0	(78,062,095)
Net value	**306,327,899**	**(17,857,679)**	**0**	**0**	**288,470,220**
INTANGIBLE ASSETS IN PROCESS AND ADVANCES					
Gross value	6,436,569	17,926,744	(15,326,437)	0	9,036,876
(Write-down provision)	0	0	0	0	0
Net value	**6,436,569**	**17,926,744**	**(15,326,437)**	**0**	**9,036,876**

BALANCE SHEET ITEMS	BALANCE AT 01.01.2019	INCREASES	RECLASSIFICATIONS	(DECREASES)	BALANCE AT 31.12.2019
OTHER INTANGIBLE ASSETS					
Gross value	38,728,752	43,052	14,565,579	(1,705,446)	51,631,937
Write-ups	0	0	0	0	0
(Write-down provision)	0	(19,216)	0	0	(19,216)
(Accumulated amortisation)	(22,661,695)	(4,182,320)	0	1,548,857	(25,295,158)
Net value	**16,067,057**	**(4,158,484)**	**14,565,579**	**(156,589)**	**26,317,563**
TOTAL INTANGIBLE ASSETS					
Gross value	772,165,552	19,318,118	0	(1,705,446)	789,778,224
Write-ups	303,949,656	0	0	0	303,949,656
(Write-down provision)	(8,688,797)	(19,217)	0	0	(8,708,014)
(Accumulated amortisation)	(475,239,482)	(40,921,688)	0	1,548,857	(514,612,313)
Net value	**592,186,929**	**(21,622,787)**	**0**	**(156,589)**	**570,407,553**

The €782,735 increase in "development costs" is related to investments in technological innovation relating to the closed-system coffee machines of the BLUE, Firma and A Modo Mio brands.

The increase for the year in item "concessions, licenses and similar rights", amounting to €1,326,445, is chiefly attributable to licenses for software for long-term use.

The increase in the item "other intangible assets" is mainly due to the capitalisation of IT costs for the development of software for long-term use and the maintenance of third-party buildings relating to the renovation of the Turin and Catania facilities.

The accounting standard OIC 24 requires that the cost of unprotected software be amortised over its expected useful life.

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The following table shows the useful lives of fixed assets:

	2019
Start-up and expansion costs	5 years
Industrial patent rights	5 years
Rights to use intellectual property	3 years
Licenses and similar rights	5 years
Know-how	20 years (*)
Trademarks	10-20 years (*)
Goodwill	10-20 years (*)
Key money	lease period
Other	5-7 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.

Tangible assets

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

BALANCE SHEET ITEMS	BALANCE AT 01.01.2019	INCREASES	RECLASSIFICATIONS	(DECREASES)	BALANCE AT 31.12.2019
LAND AND BUILDINGS					
Gross value	118,484,817	61,060	1,528,814	(6,347,260)	113,727,431
Write-ups	60,974,410	0	0	(8,578,842)	52,395,568
(Write-down provision)	(10,335,163)	(888,185)	0	1,026,705	(10,196,643)
(Accumulated depreciation)	(73,627,074)	(3,009,281)	0	8,758,928	(67,877,427)
Net value	**95,496,990**	**(3,836,406)**	**1,528,814**	**(5,140,469)**	**88,048,929**
PLANT AND MACHINERY					
Gross value	497,564,603	1,085,386	38,426,977	(6,018,475)	531,058,491
Write-ups	43,378,477	0	0	(1,712,914)	41,665,563
(Write-down provision)	(457,871)	(203,073)	0	64,602	(596,342)
(Accumulated depreciation)	(452,514,934)	(10,519,183)	0	7,575,733	(455,458,384)
Net value	**87,970,275**	**(9,636,870)**	**38,426,977**	**(91,054)**	**116,669,328**
INDUSTRIAL AND COMMERCIAL EQUIPMENT					
Gross value	151,588,288	37,674,953	255,706	(9,879,959)	179,638,988
Write-ups	1,165,417	0	0	0	1,165,417
(Write-down provision)	(4,259,682)	(3,418,775)	0	884,984	(6,793,473)
(Accumulated depreciation)	(93,275,471)	(21,526,783)	0	8,646,419	(106,155,835)
Net value	**55,218,552**	**12,729,395**	**255,706**	**(348,556)**	**67,855,097**
FURNITURE AND FITTINGS					
Gross value	23,137,396	1,234,319	392,944	(44,263)	24,720,396
Write-ups	0	0	0	0	0
(Write-down provision)	0	(108,566)	0	0	(108,566)
(Accumulated depreciation)	(15,454,602)	(1,237,134)	0	37,775	(16,653,961)
Net value	**7,682,794**	**(111,381)**	**392,944**	**(6,488)**	**7,957,869**
MEANS OF TRANSPORT					
Gross value	903,206	0	0	(24,200)	879,006
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated depreciation)	(709,326)	(17,162)	0	24,200	(702,288)
Net value	**193,880**	**(17,162)**	**0**	**0**	**176,718**
ELECTRONIC MACHINERY					
Gross value	24,552,501	1,028,837	65,512	(266,545)	25,380,305
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated depreciation)	(20,423,742)	(1,413,153)	0	250,298	(21,586,597)
Net value	**4,128,759**	**(384,316)**	**65,512**	**(16,247)**	**3,793,708**
TANGIBLE ASSETS IN PROCESS AND ADVANCES					
Gross value	35,617,073	33,832,134	(40,669,953)	0	28,779,254
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated depreciation)	0	0	0	0	0
Net value	**35,617,073**	**33,832,134**	**(40,669,953)**	**0**	**28,779,254**
TOTAL TANGIBLE ASSETS					
Gross value	851,847,884	74,916,690	0	(22,580,702)	904,183,872
Write-ups	105,518,304	0	0	(10,291,756)	95,226,548
(Write-down provision)	(15,052,716)	(4,618,599)	0	1,976,291	(17,695,024)
(Accumulated depreciation)	(656,005,149)	(37,722,696)	0	25,293,353	(668,434,492)
Net value	**286,308,323**	**32,575,395**	**0**	**(5,602,814)**	**313,280,904**

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The item "land and buildings" increased chiefly as a result of the completion during the year of the investments made in the previous year, amounting to €1,528,814 and involving the renovation of several industrial buildings and the expansion of the premises leased to the Group company Lea S.r.l. under a business unit lease contract.

The item "plant and machinery" increased by €1,085,386 due to the effect of direct purchases of industrial machinery and by €38,426,977 owing to the conclusion of investment projects involving the development of two new packaging lines for Firma and NCC capsules. The decreases primarily refer to the retirement of obsolete production lines.

The item "industrial and commercial equipment", which includes coffee machines and moulds held by third-party suppliers for the production of machine components, increased by €37,674,953, chiefly due to the installation of Firma machines in the OCS sector and of espresso machines at the cafés within the Food Service sector.

The item "furniture and fittings" increased due to purchases during the year of €1,234,319 and reclassifications of €392,944, related to the purchases and the closing of advances relating to the furnishings of the Headquarters.

The €1,028,837 increase in "electronic machinery" primarily relates to purchases of computers and IT equipment.

The item "fixed assets in process and advances" consists of investments that had yet to be placed in service at 31 December 2019.

During the year, depreciation totalled €4,618,599, mainly referring to coffee machines on free loan.

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

The following table shows the useful lives of fixed assets:

	2019
Buildings	60 years
Civil buildings	80 years
Light buildings	15 years
Canteen equipment and espresso machines	4 years
Generic and café equipment	2 years and 6 months
Specific furnishings	10 years
Generic furnishings	8 years 4 months
Generic plant and machinery	20/25 years
Specific plant	8 years and 4 months
High-tech plant and machinery	10/15 years
Electronic office equipment	5 years
Espresso machines for the Ho.Re.Ca. sector	4 years
FOL close system machines	5/6 years
Moulds	3/5/7 years
Iron silos	25 years
Trucks	12 years
Motor cars	8 years

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 2019:

	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		4,729,678				46,872,815	52,395,567
Plant and machinery	23,451	296,679			31,464,847	9,880,586			41,665,563
Moulds					187,476	977,941			1,165,417
Motor vehicles									0
Lavazza trademark			46,481,121		77,468,535	100,000,000	80,000,000		303,949,656
Total	**112,425**	**1,000,779**	**46,481,121**	**4,729,678**	**109,120,858**	**110,858,527**	**80,000,000**	**46,872,815**	**399,176,203**

The Company is located in the property complex that houses the Group's headquarters, named "Nuvola Lavazza", as well as the Lavazza Museum, the Historical Archive, the convention centre "La Centrale", the Piazza, the underground parking lot and the IAAD (Institute of Applied Art and Design), under a finance lease, which transfers most of the risks and rewards associated with the properties in question.

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The effect on the balance sheet and profit for the year of the adoption of the finance lease method to account for leased property is illustrated below:

	AMOUNT
ASSETS	
a) Agreements in force:	
Assets under finance lease at the end of the previous year	112,801,031
+ Goods acquired under finance leases during the year	0
- Assets under finance lease redeemed during the year	0
- Depreciation charges accrued during the year	(4,150,730)
+/– Value adjustments/reversals on assets under finance leases	0
Assets under finance lease at the end of the year, net of depreciation	108,650,301
b) Redeemed assets	
Total greater value of redeemed assets	0
c) Liabilities	
Constructive payables for finance lease transactions at the end of the previous year	84,352,667
+ Constructive payables arisen during the year	0
- Repayment of portions of principal and redemptions made during the year	(5,659,675)
Constructive payables for finance lease transactions at the end of the year	78,692,993
d) Reversal of prepayments associated with finance leases	**21,904,803**
e) Reversal of payables for rent yet to be paid	**0**
f) Total gross effect at the end of the year (a + b - c - d - e)	**8,052,505**
g) Tax effect	**(2,246,649)**
h) Effect on equity at the end of the year (f - g)	**5,805,856**
Effect on the statement of profit or loss	
Reversal of rent on finance leases	7,104,904
Recognition of financial expense on finance leases	(1,445,230)
Recognition of:	
- Depreciation charges:	0
· on contracts in force	(4,150,730)
· on redeemed goods	0
- Value adjustments/reversals on assets under finance lease	(123,022)
Effect on pre-tax result	1,385,923
Recognition of the tax effect	(386,672)
Effect on profit or loss of recognition of finance leases	**999,250**

Financial assets

Investments

Investments at 31 December 2019 were broken down as follows:

COMPANY NAME	HISTORIC COST	PRIOR YEARS' WRITE-DOWNS	VALUE AT 01.01.2019	INCREASES	DECREASES	WRITE-DOWNS FOR THE YEAR	VALUE AT 31.12.2019
SUBSIDIARIES							
Lavazza Australia Pty Ltd	4,804,617	0	4,804,617				4,804,617
Lavazza Argentina S.A.	5,966,852	(5,966,852)	0	864,527		(864,527)	0
Lavazza Capital S.r.l.	476,400,000	0	476,400,000				476,400,000
Lavazza Coffee (UK) Ltd	14,843	0	14,843				14,843
Lavazza Deutschland G.m.b.H.	153,227	0	153,227				153,227
Lavazza do Brasil Ltda	28,045,098	(26,974,157)	1,070,941			(1,070,941)	0
Lavazza Eventi S.r.l.	1,000,000	0	1,000,000		(1,000,000)		0
Lavazza France S.a.s.	27,939,862	0	27,939,862				27,939,862
Lavazza Kaffee G.m.b.H.	163,854	0	163,854				163,854
Lavazza Maroc S.a.r.l.	904	0	904				904
Lavazza Netherlands B.V.	130,000,000	(105,303,592)	24,696,408			(474,776)	24,221,632
Lavazza Premium Coffees Corp.	1,164,635	0	1,164,635				1,164,635
Lavazza Professional Holding EU S.r.l.	51,000,000	0	51,000,000				51,000,000
Lavazza Professional Holding NA Inc	217,721,132	0	217,721,132	106,340,716			324,061,848
Lavazza Spain S.L.	13,079,422	(12,531,699)	547,723				547,723
Lavazza Sweden AB	1,855,000	0	1,855,000				1,855,000
Lavazza Trading (Shenzhen) Co.Ltd	1,000,000	0	1,000,000				1,000,000
Cofincaf S.p.A.	3,063,719	0	3,063,719				3,063,719
Immobiliare I.N.N.E.T S.r.l.	2,002,987	0	2,002,987			(637,053)	1,365,934
Merrild Kaffe ApS	12,119,140	0	12,119,140				12,119,140
Carte Noire S.a.s	104,444,203	0	104,444,203				104,444,203
Kicking Horse Coffee Co. Ltd	116,061,395	0	116,061,395				116,061,395
Lea S.r.l.	7,133,479	(7,132,480)	999	7,132,480	(7,133,479)		0
Nims S.p.A.	62,365,865	0	62,365,865	692,376			63,058,241
Total subsidiaries	**1,267,500,234**	**(157,908,780)**	**1,109,591,454**	**115,030,099**	**(8,133,479)**	**(3,047,297)**	**1,213,440,777**
ASSOCIATES							
International Coffee Partners G.m.b.H.	25,000	0	25,000				25,000
Total associates	**25,000**	**0**	**25,000**	**0**	**0**	**0**	**25,000**
OTHER COMPANIES							
Air Vallée S.p.A.	25,823	0	25,823				25,823
Casa Commercio e Turismo S.p.A.	6,094	0	6,094				6,094
Connect Ventures One LP	6	0	6				6
Idroelettrica S.c.r.l.	300	0	300				300
INV. A.G. Srl	20,000,000	(12,712,342)	7,287,658				7,287,658
Total other companies	**20,032,223**	**(12,712,342)**	**7,319,881**	**0**	**0**	**0**	**7,319,881**
Total investments	**1,287,557,457**	**(170,621,122)**	**1,116,936,335**	**115,030,099**	**(8,133,479)**	**(3,047,297)**	**1,220,785,658**

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With reference to operating investments, the strategic focus has generally been confirmed with a view to bringing a greater consistency between the business model adopted and the geographical area involved, differentiating the approach according to actual local situations and business segments. Accordingly, the policy adopted on the valuation of investments is strictly in line with the strategic direction, decisions taken and development plans defined.

Increases for the year following the capitalisation of subsidiaries refer to:

1. Lavazza Argentina S.A., in the amount of €864,527, to cover the losses carried forward which offset the capital increase performed in the year through the waver of receivables of the same amount.

2. Lavazza Professional Holding North America, in the amount of 106,340,716, mainly attributable to the relinquishment of the financial receivable granted in 2018 for the acquisition of the US division of the Mars group for USD 100 million, and for the remainder to allocation of the final purchase price following the completion of the Purchase Price Allocation.

3. Nims S.p.A., in the amount of €692,376, due to the price adjustment provided for in the contract and linked to the company's 2018 results, paid to the selling company.

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

a. Lavazza Argentina S.A., in the amount of €864,527, and Lavazza do Brasil Ltda, for €1,070,941, due to reorganisation and review of Lavazza's distribution model in their respective markets.

b. Lavazza Netherlands B.V., in the amount of €474,776, primarily attributable to the write-down of the subsidiary Fresh & Honest Café Ltd. to account for the loss for the year ended 31 December 2019, deemed to be an impairment loss.

c. Immobiliare I.N.N.E.T. S.r.l., in the amount of €637,053, for the impairment loss of the company-owned building that was verified through specific real-estate appraisal.

The decreases for the year regarding Lavazza Eventi S.r.l. and Lea S.r.l. refer to the disposal of the investments to the Group company Lavazza Entertainment S.r.l., an industrial holding company formed to manage restaurant, entertainment and promotion activities in the coffee business.

The following table provides data regarding the main subsidiaries and associates:

COMPANY NAME	REGISTERED OFFICE	SHARE CAPITAL	EQUITY	PROFIT (LOSS) FOR THE YEAR	% HELD	CARRYING VALUE
SUBSIDIARIES						
Lavazza Australia Pty Ltd *	Hawthorn	4,570,553	4,271,910	261,153	100.00	4,804,617
Lavazza Capital S.r.l.	Turin	200,000	481,365,035	4,642,990	100.00	476,400,000
Lavazza Coffee (UK) Ltd	Uxbridge	851	2,634,297	2,633,122	100.00	14,843
Lavazza Deutschland G.m.b.H.	Frankfurt	210,000	9,119,794	6,827,034	100.00	153,227
Lavazza do Brasil Ltda	Rio de Janeiro	17,073,267	746,161	(312,753)	99.53	0
Lavazza France S.a.s.	Boulogne	21,445,312	30,264,127	2,659,463	100.00	27,939,862
Lavazza Kaffee G.m.b.H.	Vienna	218,018	616,250	398,231	100.00	163,854
Lavazza Maroc S.a.r.l.	Casablanca	932	73,859	5,121	100.00	904
Lavazza Netherlands B.V.	Amsterdam	111,500,000	24,221,634	(474,775)	100.00	24,221,632
Lavazza Premium Coffees Corp.	New York	34,581,954	27,210,932	7,832,983	93.00	1,164,635
Lavazza Professional Holding EU S.r.l.	Turin	1,000,000	50,357,091	(632,410)	100.00	51,000,000
Lavazza Professional Holding NA Inc*	West Chester, PA, USA	1	324,896,574	11,027,954	100.00	324,061,848
Lavazza Spain S.L.	Barcelona	1,090,620	583,984	20,326	100.00	547,723
Lavazza Sweden AB	Stockholm	9,572	2,267,701	464,603	100.00	1,855,000
Cofincaf S.p.A.	Turin	3,000,000	12,325,029	463,789	99.00	3,063,719
Lavazza Argentina S.A.	Buenos Aires	589,742	361,340	(376,621)	97.54	0
Lavazza Trading (Shenzhen) Co.Ltd	Shenzhen	1,048,718	1,068,834	40,239	100.00	1,000,000
Carte Noire S.a.s	Boulogne	103,830,406	117,416,374	11,287,777	100.00	104,444,203
Immobiliare I.N.N.E.T S.r.l.	Turin	30,000	306,405	23,730	100.00	1,365,934
Nims S.p.A.	Padua	3,000,000	39,331,520	5,967,699	100.00	63,058,241
Merrild Kaffe ApS	Middelfart	6,692	15,316,737	1,077,963	100.00	12,119,140
Kicking Horse Coffee Co. Ltd	Invermere	147,276,478	154,989,084	3,725,123	80.00	116,061,395
RELATED COMPANIES						
Lavaza Eventi S.r.l.	Turin	100,000	840,532	(91,366)	100.00	0
Lea S.r.l.	Turin	100,000	777,517	(882,697)	99.90	0

(*) These figures refer to the Consolidated Financial Statements of the Company with its subsidiaries.

The values of investments in companies that prepare their financial statements in foreign currencies are stated in Euro, converted at the exchange rate at 31 December 2019.
With the exception of the written-down investments mentioned above, any further negative differences between the carrying amounts of investments in subsidiaries and the proportional share of equity are not deemed to represent impairment losses.

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In order to provide complete information, the table below reports a list of the indirectly controlled companies:

COMPANY NAME	REGISTERED OFFICE	SHARE CAPITAL	EQUITY	PROFIT (LOSS) FOR THE PREVIOUS YEAR	THROUGH	CARRYING VALUE	% HELD
Carte Noire Operations S.a.s	Lavérune	28,523,820	52,665,654	774,409	Carte Noire Sas	56,212,128	100
Fresh & Honest Café Ltd *	Chennai	941,167	21,030,979	(145,674)	Lavazza Netherlands B.V.	22,852,047	99.99
Merrild Baltics SIA	Riga	2,828	1,528,737	257,973	Merrild Kaffee ApS	2,497,962	100
Lavazza Pr. FR	Roissy CDG	33,843,048	6,506	(1,246,897)	LPH EU	2,694,172	100
Lavazza Pr. DE	Verden	50,000	10,110,612	504,789	LPH EU	75,480,570	100
Lavazza Pr. UK	Basingstoke	40,061,119	23,571,932	(312,647)	LPH EU	32,796,293	100
Lavazza Pr. Japan	Tokyo	8	17,001	(13,891)	LPH NA	8	100

(*) These figures refer to the Financial Statements for the year ended at 31 March 2019

Receivables

They consist of:

	31.12.2019	31.12.2018	CHANGES
Receivables from subsidiaries	172,404,294	334,804,152	(162,399,858)
Other receivables	925,948	949,167	(23,219)
Total	**173,330,242**	**335,753,319**	**(162,423,077)**

Receivables from subsidiaries include:

- the long-term financial receivable from Lavazza Australia Pty Ltd for the AUD 7,570,431 residual amount of the loan granted in 2015 and bearing interest at a fixed rate of 5.45% per annum;
- the long-term financial receivable from Lavazza Australia OCS Pty Ltd for the AUD 13,000,000 residual amount of the loan granted in 2018 and bearing interest at a fixed rate of 5.45% per annum;
- the long-term financial receivable from Lavazza Professional Holding Europe S.r.l. for the €39,372,846 residual amount of the loan granted in 2018, bearing interest at a floating rate benchmarked on the one-year Euribor;
- the long-term financial receivable from Lavazza Professional Holding North America Inc. for the USD 135,000,000 residual amount of the loan granted in 2018, bearing interest at a rate consistent with the applicable federal rates published by the IRS (Internal Revenue Service) in the US, in accordance with the Internal Revenue Code, Section 482.

The item “other receivables” consists of security deposits (€427,728) and financial receivables from Connect Ventures One LP (€498,220), a company that invests in European Web business start-ups.

Non-current derivative assets

The Company is exposed to fluctuations in foreign exchange rates, in particular in respect of the purchase of green coffee denominated in USD and sales in countries with currencies other than the euro.
In order to reduce the impact of changes in exchange rates on expected cash flows, in accordance with its risk management policy the Company uses derivatives solely for hedging purposes.
The item includes the positive change in the fair value of outstanding derivatives at 31 December 2019 with a duration in excess of 12 months, contracted in order to hedge against foreign exchange and commodities risk.

Non-current derivative assets

NOTIONAL VALUE	UNDERLYING FINANCIAL RISK	FAIR VALUE	HEDGED ASSET / LIABILITY
EUR 82.657.578	Exchange rate risk	921,349	Sales
USD 2,724,373	Commodity risk	2,549,841	Purchases of green coffee
Total		**3,471,190**	

The following table shows movements for the year:

	31.12.2019	31.12.2018	CHANGES
Derivatives to hedge exchange-rate risk	921,349	87,265	834,084
Derivatives to hedge commodity risk	2,549,841	210,026	2,339,815
Derivatives to hedge interest-rate risk	0	0	0
Total	**3,471,190**	**297,291**	**3,173,899**

Information on fair value (Article 2427-bis, paragraph 1, No.2)

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

NON-CURRENT FINANCIAL ASSETS	CARRYING VALUE	FAIR VALUE
Investments in other companies:		
INV A.G. Srl	7,287,658	10,914,136
Other	32,223	32,223
Total investments in other companies	7,319,881	10,946,359
Other receivables:		
Financial receivables from subsidiaries	172,404,294	172,404,294
Guarantee deposits	427,728	427,728
Receivables from Connect Ventures One LP	498,220	1,283,498
Total other receivables	173,330,243	174,115,520

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CURRENT ASSETS

Inventories

	31.12.2019	31.12.2018	CHANGES
Raw materials, ancillaries and consumables	176,205,169	168,175,813	8,029,356
Accumulated depreciation of raw materials, ancillaries and consumables	(2,627,477)	(1,340,477)	(1,287,000)
Raw materials, ancillaries and consumables (net value)	173,577,692	166,835,336	6,742,356
Work-in-process and semi-finished goods	2,271,944	1,835,585	436,359
Accumulated depreciation for work-in-process and semi-finished goods	(700,000)	(400,000)	(300,000)
Work-in-process and semi-finished goods (net value)	1,571,944	1,435,585	136,359
Finished products and goods	102,677,363	99,557,724	3,119,639
Accumulated depreciation of finished products and goods	(14,540,640)	(12,244,492)	(2,296,148)
Finished products and goods (net value)	88,136,723	87,313,232	823,491
Total	**263,286,359**	**255,584,153**	**7,702,206**
Advance payments	444,230	619,139	(174,909)
Overall total	**263,730,589**	**256,203,292**	**7,527,297**

Inventories of raw materials at 31 December 2019 increased at the level of the green coffee component, in terms of both quantity (by approximately 8,000 tons) and value (by approximately €9.5 million).
Inventories of packaging declined by approximately €1.5 million compared to the previous year.

Inventories at 31 December 2019 were recognised net of an inventory write-down provision totalling €17,868,117, which accounts for obsolescence and slow turnover, primarily relating to vending systems and spare parts, advertising materials, plant spares and packaging.
During the year, the inventory write-down provision decreased by €7,069,955 due to disposal and scrapping of assets, against increases of €10,953,103.

Receivables

The following tables show movements of receivables and their adjustments during the year and the balance at 31 December 2019:

	ORIGINAL COST 31.12.2018	INCREASES (DECREASES)	ORIGINAL COST 31.12.2019	ACCUMULATED DEPRECIATION AT 31.21.18	PROVISIONS	USES	ACCUMULATED DEPRECIATION AT 31.21.19	EXPECTED REALISABLE VALUE AT 31.12.2019
Trade receivables	143,207,686	(19,289,903)	123,917,783	4,486,678	1,344,963	1,051,594	4,780,047	119,137,736
Receivables from subsidiaries	232,808,187	32,804,078	265,612,265	0	0	0	0	265,612,265
Receivables from related parties	0	194,236	194,236	0	0	0	0	194,236
Receivables from parent companies	18,703,442	(6,176,788)	12,526,654	0	0	0	0	12,526,654
Tax receivables	22,899,398	6,446,110	12,958,553	0	0	0	0	12,958,553
Deferred tax assets	33,082,401	(2,208,894)	30,873,507	0	0	0	0	30,873,507
Other receivables	8,080,422	6,353,331	14,433,753	0	0	0	0	14,433,753
Total	**458,781,536**	**18,122,170**	**460,516,751**	**4,486,678**	**1,344,963**	**1,051,594**	**4,780,047**	**455,736,704**

All receivables at 31 December 2019 are due within the next financial year.

An adjustment provision totalling €4,780,047 was made to adjust the nominal value of trade receivables to their expected realisable value.

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

	ITALY	EU COUNTRIES	OTHER EUROPEAN COUNTRIES	AMERICAS	AUSTRALIA	OTHER COUNTRIES	TOTAL
Trade receivables	75,650,312	27,920,145	8,963,590	1,120,366	0	5,483,323	119,137,736
Receivables from subsidiaries	8,778,067	213,902,933	0	29,820,416	10,189,714	2,921,135	265,612,265
Receivables from related parties	194,236	0	0	0	0	0	194,236
Receivables from parent companies	12,526,654	0	0	0	0	0	12,526,654
Tax receivables	10,167,955	2,666,858	0	0	123,740	0	12,958,553
Deferred tax assets	30,873,507	0	0	0	0	0	30,873,507
Other receivables	4,601,683	9,291,452	18,394	96,268	108,525	317,431	14,433,753
Total	**142,792,414**	**253,781,388**	**8,981,984**	**31,037,050**	**10,421,979**	**8,721,889**	**455,736,704**

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Receivables from subsidiaries and associates refer to the following companies:

	31.12.2019	31.12.2018	CHANGES
TRADE RECEIVABLES:			
Direct subsidiaries			
Lavazza Argentina S.A.	552,714	1,002,419	(449,705)
Lavazza Australia Pty Ltd	8,251,192	8,609,927	(358,735)
Lavazza Capital S.r.l	0	148,800	(148,800)
Lavazza Coffee (UK) Ltd	25,934,379	20,718,236	5,216,143
Lavazza Deutschland G.m.b.H.	50,339,111	43,039,597	7,299,514
Lavazza do Brasil Ltda	1,655,566	1,569,649	85,917
Lavazza France S.a.s.	21,106,738	8,529,309	12,577,429
Lavazza Kaffee G.m.b.H.	5,256,799	4,392,419	864,380
Lavazza Netherlands B.V.	28,764	18,747	10,017
Lavazza Sweden AB	3,845,086	3,230,588	614,498
Lavazza Premium Coffees Corp.	29,353,076	25,590,995	3,762,081
Lavazza Professional Holding EU S.r.l.	0	6,116	(6,116)
Lavazza Spain S.L.	19,734	22,913	(3,179)
Merrild Kaffe ApS	957,898	4,085,730	(3,127,832)
Carte Noire S.a.s	100,000,327	90,566,361	9,433,966
Kicking Horse Coffee Co. Ltd	152,628	71,208	81,420
Cofincaf S.p.A.	87,596	53,234	34,362
Nims S.p.A.	8,412,415	8,817,504	(405,089)
Espresso Service Proximité S.A.	0	9,292,480	(9,292,480)
Related companies			
Lavazza Eventi s.r.l.	178,512	191,876	(13,364)
Lea S.r.l.	15,430	137,283	(121,853)
Indirect subsidiaries			
Carte Noire Operations S.a.s	125,349	115,796	9,553
Fresh & Honest Café Ltd	699,249	1,203,599	(504,350)
Lavazza Australia OCS Pty Ltd	1,603,461	662,711	940,750
Lavazza Professional France	25,444	0	25,444
Lavazza Professional Germany G.m.b.H.	129,476	0	129,476
Lavazza Professional UK Ltd	160,417	0	160,417
Lavazza Professional NA LLC	264,668	0	264,668
Lavazza Professional Japan GK	13,606	0	13,606
Merrild Baltics SIA	0	13,858	(13,858)
Total trade receivables	**259,169,635**	**232,091,355**	**27,078,280**
FINANCIAL RECEIVABLES:			
Subsidiaries			
Cofincaf S.p.A.	278,056	138,362	139,694
Lavazza Australia Pty Ltd	134,095	275,475	(141,380)
Lavazza Australia OCS Pty Ltd	200,966	197,102	3,864
Lavazza Professional France	504,004	0	504,004
Lavazza Professional Holding NA Inc	50,044	0	50,044
Lavazza Professional Holding EU S.r.l.	5,469,407	0	5,469,407
Carte Noire Operations S.a.s	0	105,863	(105,863)
Related companies			
Lea S.r.l.	294	30	264
Total financial receivables	**6,636,866**	**716,832**	**5,920,034**
Total receivables from subsidiaries	**265,806,501**	**232,808,187**	**32,998,314**

During the year, Luigi Lavazza S.p.A. implemented a cash-pooling system with its main investees operating in the Eurozone in order to optimise the Group's treasury management.
Receivables of a financial nature from subsidiaries refer to the portion of the interest accrued at 31 December 2019 on loans issued to subsidiaries and carried partly among financial assets and partly among the positive balances of the current accounts of centralised treasury.

Receivables from parent companies, amounting to approximately €12,526,654, refer to receivables from Finlav S.p.A. for IRES (company income tax) within the framework of the national tax consolidation programme (€9,671,831) and include the tax benefit for the years 2007 to 2011 of approximately €2,854,823, deriving from the introduction of Legislative Decree 201/2011 (converted by Law No. 214 of 27 December 2011), which permits IRAP (regional production tax) relating to the taxable portion of personnel and similar expenses to be deducted from IRES with effect from tax period 2007.
The significant decrease during the year refers to the accrual of the IRES tax for the period.

Tax receivables of €12,958,553 may be broken down as follows:

- VAT receivables of €9,271,403 from Italian and foreign revenue authorities in connection with direct identification for VAT purposes in the countries concerned;
- €3,652,648 receivable in connection with the capital asset investment subsidy pursuant to Article 18 of Decree-Law No. 91 of 24 June 2014, known as the "Competitiveness Decree-Law", converted, with amendments, by Law No. 116 of 7 August 2014, and with the research and development credit introduced by the 2015 Stability Law (Law No. 190-2014);
- €34,502 receivable associated with IRAP (personal income tax).

Deferred tax assets are allocated in relation to negative income components, which are deducted after they accrue. Changes, final balance and description are set out in the relevant table in the Notes on "taxes for the year".

The item "other receivables" of €14,433,753 refers primarily to advances to suppliers of €5,074,590 and a time deposit for the trading of listed hedging derivative instruments of €8,375,218.

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Current financial assets

Derivative assets

The item includes the increase in the fair value of outstanding derivatives at 31 December 2019 with a duration of less than 12 months, contracted in order to hedge against foreign exchange and commodities risks.
The following table provides a detailed description:

Derivative assets

NOTIONAL VALUE	UNDERLYING FINANCIAL RISK	FAIR VALUE	HEDGED ASSET / LIABILITY
EUR 49.227.679	Exchange rate risk	577,208	Sales
USD 12,238,088	Commodity risk	23,634,350	Purchases of green coffee
Total		**24,211,558**	

The following table shows movements for the year:

	31.12.2019	31.12.2018	CHANGES
Derivatives to hedge exchange-rate risk	577,208	4,893,619	(4,316,411)
Derivatives to hedge commodity risk	23,634,350	467,251	23,167,099
Total	**24,211,558**	**5,360,870**	**18,850,688**

Cash and cash equivalents

This item consists of cash at bank and post-office accounts, as well as cash in hand and cheques held by logistic hubs, outside contractors and sales areas.

The following table provides a detailed description:

	31.12.2019	31.12.2018	CHANGES
Bank accounts	217,961,421	65,423,705	152,537,716
Post office accounts	1,066,892	435,182	631,710
Foreign currency accounts	28,267,583	26,604,538	1,663,045
Cash and valuables on hand	58,362	43,275	15,087
Total	**247,354,258**	**92,506,700**	**154,847,558**

The increase of approximately €152 million on the previous year is due to the Company's ability to generate cash, the collection of dividends from the Group's subsidiaries of approximately €41.5 million and the contribution of the positive balance of investees that joined the cash pooling system during the year of approximately €104 million

Foreign currency accounts consist of USD 31,529,823 and ZAR 3,173,886 and are primarily funded by market purchases, collections of receivables from the U.S. subsidiary Lavazza Premium Coffees Corp. and collections of receivables from foreign customers.

Prepayments and accrued income

The item consists of the following:

	31.12.2019	31.12.2018	CHANGES
PREPAYMENTS			
of lease contracts	21,904,803	23,196,616	(1,291,813)
of promotional contributions	0	10,669,886	(10,669,886)
of advertising expenses	8,015,602	9,278,297	(1,262,695)
of derivatives	302,960	1,986,968	(1,684,008)
of software leases	1,973,622	1,341,690	631,932
of insurance premiums	307,220	338,999	(31,779)
of maintenance contracts	413,312	210,126	203,186
Other	742,569	554,042	188,527
Total prepayments	**33,660,088**	**47,576,624**	**(13,916,536)**
Total prepayments and accrued income	**33,660,088**	**47,576,624**	**(13,916,536)**

The item "lease contracts" under "prepayments" refers to the residual share of the upfront payment made upon entering into the finance lease arrangement for the real-estate complex divided into various lots, which are to house office and commercial buildings, the museum and parking areas, in addition to the Company's Headquarters. This finance lease is taken to the statement of profit or loss on an accrual basis over the 18-year term of the lease.
The breakdown of instalments is as follows: €1,598,807 within one year, €5,780,918 between 1 and 5 years and €14,525,240 beyond 5 years.

The item "promotional contributions" under prepayments" primarily refers to the share of contributions towards promotional investments set to accrue in future years, paid in advance by commercial partners for the promotion and Lavazza-branding of the machines of the Office Coffee System and Food Service sectors. The suspension of commercial relations with such customers and the repurchase by the Company of almost all machines during the year entailed the full release of the related prepayments.

The item "advertising expenses" under "prepayments" refers primarily to the portion not accrued during the year of advance payments made to customers in the Food Service sector for the sponsorship of Lavazza products in the points of sale. Such costs will be recognised in the statement of profit or loss on an accrual basis over the duration of the contract.

The item "derivatives" under "prepayments" refers to the negative change reported by forward points on the derivative contracts hedging against foreign exchange and commodity risks as at 31 December 2019 (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 charged through profit or loss when the hedged costs are recognised.

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Negative change in time value of derivatives

NOTIONAL VALUE	UNDERLYING FINANCIAL RISK	CHANGE IN TIME VALUE	HEDGED ASSET / LIABILITY
EUR 24.291.198	Exchange rate risk	8,223	Sales
EUR 108.979.772	Exchange rate risk	294,737	Sales
	Commodity risk	-	Purchases of green coffee
Total		**302,960**	

Prepayments on negative change in time value of derivatives

	31.12.2019	31.12.2018	CHANGES
Forward points based on spot exchange rate	8,223	35,763	(27,540)
Time value of options on exchange rates	294,737	16,042	278,695
Time value of options on commodities	0	1,935,163	(1,935,163)
Total	**302,960**	**1,986,968**	**(1,684,007)**

Property, plant and equipment held for sale

In accordance with the accounting standard OIC 16 and pursuant to Article 2423-*ter*, paragraph 3, of the Italian Civil Code, the item “Property, plant and equipment held for sale” has been added to the balance sheet, as item C) V) of the current assets section. The item includes the net value of an industrial property for which a preliminary sale agreement was signed in 2020 for €5.2 million.

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BALANCE SHEET – EQUITY AND LIABILITIES

Equity

In compliance with the provisions of Article 2427 (7-*bis*) of the Italian Civil Code, a description of the type, possible uses, and portion available for distribution is set out in the table below for each reserve.

NATURE / DESCRIPTION	AMOUNT	POSSIBILITY OF USE	AMOUNT AVAILABLE FOR DISTRIBUTION
SHARE CAPITAL	25,000,000		0
CAPITAL RESERVES			
- Share premium account	223,523	A B C	223,523
- Revaluation reserve	361,721,428	A B C	361,721,428
RESERVE FROM PROFITS			
- Legal reserve	5,000,000	B	0
OTHER RESERVES			
- Extraordinary reserve	203,611,325	A B C	203,611,325
- Reserve Re. Art. 18 Presidential Decree 675/77	16,892	A B C	16,892
- Reserve Re. Art. 55 of Law 526/82	86,235	A B C	86,235
- Reserve Re. Law 130/83	162,463	A B C	162,463
- Reserve Re. Law 46/82	90,785	A B C	90,785
- Reserve Re. Law 488/92	380,808	A B C	380,808
- Reserve Re. Art. 55 Presidential Decree 917/86	212,481	A B C	212,481
- Reserve arising on net exchange gains	0	B	0
- Merger surplus reserve	56,953,074	A B C	56,953,074
RETAINED EARNINGS	1,439,136,282	A B C	1,439,136,282
NEGATIVE RESERVE FOR TREASURY SHARES	(17,732,533)	restricted	(17,732,533)
HEDGE RESERVE FOR EXPECTED CASH FLOWS	6,086,726	restricted	0
Total	**2,080,949,489**		**2,044,862,763**
Total			**3,620,590**
Amount available for distribution			**2,041,242,173**

Legend:
A: for capital increase
B: for loss coverage
C: for distribution to shareholders
*** equal to the portion of development expenses not yet amortised

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

Share capital

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

Revaluation reserves

Revaluation reserves are detailed as follows (euro):

	31.12.2019
Re. Law 576/75 *	28,033
Re. Law 72/83 **	267,518
Re. Law 408/90	25,096,319
Re. Law 413/91	5,680,818
Re. Law 342/2000 ***	103,048,413
Re. Law 448/2001	5,100,000
Re. Law 350/2003 ****	93,900,327
Re. Law 266/2005	70,400,000
Re. Law 185/2008	58,200,000
Total revaluation reserves	**361,721,428**

* Due to the merger of Luca S.r.l.
** Due to the merger of Manifattura Rosy S.r.l. (€198,836) and Luca S.r.l. (€68,682).
*** Due to the merger of Mokapak S.r.l. (€5,111,146).
**** Due to the merger of Mokadec S.r.l. (€2,729,700) and Mokapak S.r.l. (€8,813,610).

No allocations of the related deferred taxes were made to revaluation reserves and other reserves pending taxes, since to date they are not expected to be distributed.

Negative reserve for treasury shares

In accordance with Legislative Decree of 18 August 2015, implementing Directive 34/2013/EU, amending Article 2357-*ter* of the Italian Civil Code, in these financial statements the value of treasury shares in portfolio was recognised to a specific negative equity reserve.
Treasury shares in portfolio amounted to 2,499,998 ordinary shares, with a nominal value of €1 each, accounting for approximately 10% of share capital.
No other Lavazza Group company owns Luigi Lavazza S.p.A. shares.

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Hedge reserve for expected cash flows

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

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

	01.01.2018	INCREASES FOR FAIR VALUE CHANGES	DECREASES FOR FAIR VALUE CHANGES	DEFERRED TAX LIABILITIES	DEFERRED TAX ASSETS	31.12.2018	INCREASES FOR FAIR VALUE CHANGES	DECREASES FOR FAIR VALUE CHANGES	DEFERRED TAX LIABILITIES	DEFERRED TAX ASSETS	31.12.2019
Derivatives to hedge exchange-rate risk	(1,636,566)	4,388,734	(85,425)	(1,200,623)	2,269,855	3,735,975	95,177	(5,232,758)	0	212,713	(1,188,893)
Derivatives to hedge commodity risk	(20,289)	(31,191,062)	7,359,817	0	6,656,841	(17,194,693)	7,125,340	32,107,495	(4,291,383)	(6,656,841)	11,089,918
Derivatives to hedge interest-rate risk	(479,722)	(1,868,156)	463,273	0	488,663	(1,395,942)	(2,618,823)	(363,895)	0	564,361	(3,814,299)
Total	**(2,136,577)**	**(28,670,484)**	**7,737,665**	**(1,200,623)**	**9,415,359**	**(14,854,660)**	**4,601,694**	**26,510,842**	**(4,291,383)**	**(5,879,767)**	**6,086,726**

At 31 December 2019, €6,086,725 of lower hedging costs that will have an impact in 2020 remained suspended in equity. This item primarily relates to lower costs on commodity hedging, partially offset by greater costs associated with foreign exchange and interest rate hedging.

Statement of changes in equity

	SHARE CAPITAL	SHARE PREMIUM ACCOUNT	REVALUATION RESERVE	LEGAL RESERVE	OTHER RESERVES	HEDGE RESERVE FOR EXPECTED CASH FLOWS	RETAINED EARNINGS	PROFIT (LOSS) FOR THE YEAR	NEGATIVE RESERVE FOR TREASURY SHARES IN PORTFOLIO	TOTAL
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**
Allocation of profit for the year:										
- dividend allocation (€ 1.20 per share)								(27,000,002)		(27,000,002)
- other allocations										0
Other changes										0
-increases						(12,718,086)	17,200,895	57,786,500		62,269,308
-decreases							(50,175,004)	(17,200,895)		(67,375,899)
-reclassification										0
Result for the previous year										0
Balance at 31.12.2018	**25,000,000**	**223,523**	**361,721,428**	**5,000,000**	**261,514,064**	**(14,854,660)**	**1,416,449,786**	**57,786,500**	**(17,732,533)**	**2,095,108,107**
Allocation of profit for the year:										
- dividend allocation (€ 1.56 per share)								(35,100,003)		(35,100,003)
- other allocations										0
Other changes										0
-increases						20,941,386	22,686,497	106,186,603		149,814,486
-decreases								(22,686,497)		(22,686,497)
-reclassification										0
Result for the previous year										0
Balance at 31.12.2019	**25,000,000**	**223,523**	**361,721,428**	**5,000,000**	**261,514,064**	**6,086,726**	**1,439,136,282**	**106,186,603**	**(17,732,533)**	**2,187,136,092**

During the year, the retained earnings reserve increased due to the undistributed share of the profit from the previous year of €22,686,497.

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Provisions for risks and charges

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

	31.12.2018	EFFECT OF HEDGING DERIVATIVES	RELEASES	PROVISIONS FOR THE YEAR	USES - RELEASES FOR THE YEAR	31.12.2019
PROVISIONS FOR TAXES, INCLUDING DEFERRED:						
provision for taxes	1,000,000	0	0	2,350,910	(450,910)	2,900,000
provision for deferred tax liabilities	1,453,137	0	0	5,732,611	(11,547)	7,174,201
Total provisions for taxes, including deferred	**2,453,137**	**0**	**0**	**8,083,521**	**(462,457)**	**10,074,201**
OTHER PROVISIONS:						
provision for legal issues	26,698,000	0	(35,258)	4,024,686	(7,687,097)	23,000,331
provision for guarantees and endorsements	4,844,010	0	0	388,382	(260,777)	4,971,615
provision for agents' customer compensation	2,958,815	0	(31,030)	365,315	(318,823)	2,974,277
provision for future risks and charges	74,675	0	0	12,100,000	0	12,174,675
provision for sundry personnel costs	20,792,124	0	(229,500)	23,819,272	(14,270,757)	30,111,139
provision for restructuring	2,100,000	0	(1,200,000)	0	(760,770)	139,230
Derivative liabilities	11,223,091	1,198,714	0	0	0	12,421,805
Total other provisions	**68,690,715**	**1,198,714**	**(1,495,788)**	**40,697,655**	**(23,298,224)**	**85,793,072**
Total provisions	**71,143,852**	**1,198,714**	**(1,495,788)**	**48,781,176**	**(23,760,681)**	**95,867,273**

The provision for taxes decreased by €450,910 during the year following the settlement of an assessment with the revenue authorities regarding income taxes referring to 2013 and 2014.

The increase of €2,350,910 was due to taxes and related interest arising from the higher tax base, as established in the MAP negotiation between the Italian tax authority and, respectively, the French, English and German tax authorities, referring to the 2010 tax period. The greater taxes and the related interest accrued, while agreed, had yet to be paid to the Company as at 31 December 2019.

The item "provision for deferred taxes" is broken down in a specific table included in the Notes on "taxes for the year."

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

The item "provision for guarantees and endorsements" has been established to account for possible future losses on loans granted by the subsidiary Cofincaf S.p.A. to vending and Ho.Re.Ca. operators.

The item "provision for supplementary agents' customer compensation", created for agent members of Enasarco (National Board for the Assistance to Commercial Agents and Representatives) in the event of retirement or interruption of contract due to principal, was adjusted.

The provision for future risks and charges increased during the year in relation to investment and reconversion projects designed to increase the environmental sustainability of production processes and finished products, while minimising the environmental impacts due to the use of plastic.

At 31 December 2019, the "provision for sundry personnel costs" included the accruals and uses for employee bonuses and incentives.

The item "provision for restructuring", associated with the process of reorganising and rationalising the Lavazza production system, was partially drawn down to cover the costs incurred during the year.

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Financial derivative liabilities

The item includes the decrease in the fair values of the outstanding derivatives at 31 December 2019.
The following table provides a detailed description:

	NOTIONAL VALUE	UNDERLYING FINANCIAL RISK	FAIR VALUE	HEDGED ASSET / LIABILITY
CURRENT DERIVATIVE LIABILITIES				
on exchange rates	EUR 153,844,600	Exchange rate risk	1,572,546	Purchases of green coffee
on commodities	USD 2,387,880	Commodity risk	5,129,590	Purchases of green coffee
Total			**6,702,136**	
NON-CURRENT DERIVATIVE LIABILITIES				
on exchange rates	EUR 1,216,101	GBP exchange rate risk	12,998	Sales
on commodities	-	Commodity risk	0	Purchases of green coffee
on interest rates	EUR 800,000,000	Interest rate risk	5,706,671	Loan
Total			**5,719,669**	
Total			**12,421,805**	

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

The price of green coffee is subject to considerable volatility caused by both variables relating to physical supply and demand mechanisms (harvest, stocks, consumption and logistical limitations) and speculative activity on the exchanges.

In order to limit the impact of fluctuations in coffee prices, the Company adopts procurement policies aimed at reducing price variations, while also engaging in hedging through financial derivatives, in accordance with its risk management policy.
During the year, the Company used financial derivatives (cross currency swaps) to transform the fixed-rate intercompany loan in US dollars granted to the subsidiary Lavazza Professional Holding North America, commented on in the section on receivables from subsidiaries, into a fixed-rate loan in euros.

The following table shows the movements in the year:

	31.12.2019	31.12.2018	CHANGES
CURRENT DERIVATIVE LIABILITIES			
Derivatives to hedge exchange-rate risk	1,572,546	414,555	1,157,991
Derivatives to hedge commodity risk	5,129,590	7,475,317	(2,345,727)
Derivatives to hedge interest-rate risk	0	0	0
NON-CURRENT DERIVATIVE LIABILITIES			
Derivatives to hedge exchange-rate risk	12,998	29,300	(16,302)
Derivatives to hedge commodity risk	0	52,554	(52,554)
Derivatives to hedge interest-rate risk	5,706,671	3,251,365	2,455,306
Total	**12,421,805**	**11,223,091**	**1,198,714**

Employee termination indemnities

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

Balance at 31.12.2018 net of tax advances pursuant to law 662/96	**14,707,837**
Use of indemnities paid in the year	(1,142,368)
advances	(61,314)
Revaluation of the year	211,494
Balance at 31.12.2019	**13,715,649**

Employee termination indemnities at 31 December 2019 reflected accrued indemnities due to employees until the date they choose a supplemental pension scheme. This amount will be eliminated with the payments that will take place when employment relationships terminate or in case of any advances made as per law.

In compliance with Legislative Decree 124/93 and subsequent company agreements, €3,605,706 were allocated to the following bodies for financing supplemental pension schemes.

DESCRIPTION	CURRENCY	AMOUNT
Alifond	EUR	1,632,668
Fon.te.	EUR	262,890
Previndai	EUR	1,354,971
Open-ended funds	EUR	355,177
Total	**EUR**	**3,605,706**

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Liabilities

Liabilities at 31 December 2019 were broken down as follows:

	31.12.2019	31.12.2018	CHANGES
Payables to banks			
- due within one year	125,286,584	100,537,544	24,749,040
- due after one year	463,753,017	588,038,415	(124,285,398)
Advance payments	632,381	2,369,634	(1,737,253)
Trade payables	248,612,905	234,568,294	14,044,611
Payables to subsidiaries	112,280,679	9,834,767	102,445,912
Payables to related companies	2,456,942	0	2,456,942
Tax payables	3,758,996	25,868,052	(22,109,056)
Social security liabilities	5,741,593	4,904,526	837,067
Other liabilities	46,654,146	43,497,913	3,156,233
Total	**1,009,177,243**	**1,009,619,145**	**(441,902)**

The item "payables to banks" of €589 million includes €189 million attributable to the residual value of a corporate loan contracted in 2016 with a term of five years maturing in 2021 and an initial amount of €400 million, bearing interest at a variable rate (six-month Euribor), subsequently converted to a fixed rate by an interest rate swap transaction, down by approximately €100 million during the year, and the remaining €400 million attributable to a corporate loan contracted in 2018, bearing interest at a variable rate (six-month Euribor), subsequently converted to a fixed rate by an interest rate swap transaction with a term of five years, with principal repayment set to begin in 2021.

The following table provides a breakdown by geographic area:

	ITALY	OTHER EU COUNTRIES	OTHER EUROPEAN COUNTRIES	AMERICAS	AUSTRALIA	OTHER COUNTRIES	TOTAL
Payables to banks	589,039,601	0	0	0	0	0	589,039,601
Advance payments	43,484	9,365	14,674	12,350	0	552,508	632,381
Trade payables	192,190,680	34,100,833	13,604,414	1,266,662	54,526	7,395,790	248,612,905
Payables to subsidiaries	3,157,061	107,481,432	0	494,632	355,255	792,299	112,280,679
Payables to related parties	2,456,942	0	0	0	0	0	2,456,942
Payables to the Parent Company	0	0	0	0	0	0	0
Tax payables	3,757,695	0	1,301	0	0	0	3,758,996
Social security liabilities	5,741,593	0	0	0	0	0	5,741,593
Other liabilities	40,183,778	1,976,345	4,183,160	6,545	0	304,318	46,654,146
Total	**836,570,834**	**143,567,975**	**17,803,549**	**1,780,189**	**409,781**	**9,044,915**	**1,009,177,243**

The following table provides a breakdown of payables to subsidiaries:

	31.12.2019	31.12.2018	CHANGES
TRADE PAYABLES:			
Direct subsidiaries			
Lavazza Australia Pty Ltd	355,255	459,915	(104,660)
Lavazza Coffee (UK) Ltd	349,037	128,484	220,553
Lavazza Deutschland G.m.b.H.	21,255	83,482	(62,227)
Lavazza do Brasil Ltda	26,927	40,617	(13,690)
Lavazza France S.a.s.	101,161	25,731	75,430
Lavazza Kaffee G.m.b.H.	16,046	2,242	13,804
Lavazza Maroc S.a.r.l.	83,407	35,620	47,787
Lavazza Netherlands B.V.	81,003	85,482	(4,479)
Lavazza Premium Coffees Corp.	460,604	603,913	(143,309)
Lavazza Spain S.L.	169,459	394,016	(224,557)
Lavazza Sweden AB	0	16,747	(16,747)
Lavazza Trading (Shenzhen) Co. Ltd	546,756	603,526	(56,770)
Carte Noire S.a.s	496,929	467,584	29,345
Cofincaf S.p.A.	395,905	241,145	154,760
Kicking Horse Coffee Co. Ltd	34,027	141,879	(107,852)
Merrild Kaffe ApS	1,810,476	948,183	862,293
Nims S.p.A.	2,961	0	2,961
Indirect subsidiaries			
Carte Noire Operations S.a.s	5,041,366	3,551,342	1,490,024
Fresh & Honest Ltd	135,209	135,209	0
Related companies			
Chili S.p.A.	3,294	0	3,294
Lavazza Eventi S.r.l.	126,689	514,876	(388,187)
Lea S.r.l.	11,039	32,409	(21,370)
Total trade payables	**10,268,805**	**8,512,402**	**1,756,403**
FINANCIAL PAYABLES:			
Direct subsidiaries			
Cofincaf S.p.A.	14,293	59,873	(45,580)
Carte Noire S.a.s	38,114,995	0	38,114,995
Lavazza France S.a.s.	25,129,723	0	25,129,723
Nims S.p.A.	2,743,902	0	2,743,902
Lavazza Deutschland G.m.b.H.	33,510,308	0	33,510,308
Indirect subsidiaries			
Carte Noire Operations S.a.s	1,639,761	0	1,639,761
Lavazza Professional Germany G.m.b.H.	999,915	0	999,915
Related companies			
Lea S.r.l.	705,897	360,763	345,134
Lavazza Eventi S.r.l.	1,125,493	901,729	223,764
Lavazza Entertainment S.r.l.	484,529	0	484,529
Total financial payables	**104,468,816**	**1,322,365**	**103,146,451**
Total payables to subsidiaries / related companies	**114,737,621**	**9,834,767**	**104,902,854**

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During the year, various Group companies joined the cash pooling system operated by Luigi Lavazza S.p.A. The financial payables shown in the table refer to the negative balances of this centralised treasury system.

Tax payables consist of the following:

	31.12.2019	31.12.2018	CHANGES
Foreign value-added tax	1,301	20,593,191	(20,591,890)
Income tax to be paid as withholding agents	3,112,535	2,958,693	153,842
IRAP (regional production tax)	537,311	2,244,196	(1,706,885)
Other taxes	107,849	71,972	35,877
Total	**3,758,996**	**25,868,052**	**(22,109,056)**

The item "other liabilities" consists of the following:

	31.12.2019	31.12.2018	CHANGES
Trade discounts payable	22,629,426	20,067,887	2,561,539
Payables to personnel	12,924,587	12,390,058	534,529
Nims warranty withholding	9,978,538	9,978,538	0
Deposits received from third parties	506,870	381,523	125,347
Sundry trade payables	485,396	326,633	158,763
Other minor items	129,329	353,274	(223,945)
Total	**46,654,146**	**43,497,913**	**3,156,233**

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

Payables to employees relate to the balance of unused holiday and other leaves accrued during the year and production bonuses, partly included in the company welfare programme.

"Other liabilities" chiefly include €9,978,538 attributable to the amount retained under the purchase agreement for the shares of the company Nims S.p.A., which will be paid to the counterparty in 2020.

Accruals and deferred income

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

	31.12.2019	31.12.2018	CHANGES
ACCRUALS:			
14th month salary	3,439,095	3,453,770	(14,675)
Total accruals	**3,439,095**	**3,453,770**	**(14,675)**
DEFERRED INCOME:			
on tax relief for plant	1,725,476	2,472,771	(747,295)
on franchising entry fees	82,188	82,188	0
on derivatives	62,065	836,871	(774,806)
Total deferred income	**1,869,729**	**3,391,830**	**(1,522,101)**
Total accruals and deferred income	**5,308,824**	**6,845,600**	**(1,536,776)**

The item "deferred income on tax relief for plants" refers to the future share of government grants pursuant to Article 1, paragraph 35, of Law No. 190/2014 (Research & Development Bonus) which have been accounted for according to the indirect method, spread over the useful lives of the plants to which the relief applies.

The item "deferred income on derivatives" refers to the recognition of an increase in forward points on the derivative contracts hedging against foreign exchange and commodity risks as at 31 December 2019 (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 charged to the statement of profit or loss when the hedged costs are recognised.

Positive change in time value of derivatives

NOTIONAL VALUE	UNDERLYING FINANCIAL RISK	CHANGE IN TIME VALUE	HEDGED ASSET / LIABILITY
EUR 32.100.828	Exchange rate risk	45,417	Sales
EUR 116.789.403	Exchange rate risk	16,648	Purchases of green coffee
		62,065	

Deferred income on positive change in time value of derivatives

	31.12.2019	31.12.2018	CHANGES
Time value of options on exchange rates	45,417	13,272	32,145
Time value of options on commodities	16,648	823,599	(806,951)
Total	**62,065**	**836,871**	**(774,806)**

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STATEMENT OF PROFIT OR LOSS

Value of production

Net revenues

Net revenues for the year were broken down as follows:

CATEGORIES OF ASSETS	YEAR 2019	YEAR 2018	CHANGES
Sales of coffee and food products	1,415,412,370	1,412,551,952	2,860,418
Sales of coffee machines and spare parts	74,631,611	86,764,433	(12,132,822)
Sales of advertising material	10,518,840	11,658,529	(1,139,689)
Sales of packaging	73,174	360,838	(287,664)
Sales of other products	3,404,947	2,689,614	715,333
Sales of raw materials and other ancillaries	8,313,500	12,342,063	(4,028,563)
Total	**1,512,354,442**	**1,526,367,429**	**(14,012,987)**

The Directors' Report on Operations provides comments on the changes of this item.

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

DESTINATION	SUBSIDIARIES	OTHER CUSTOMERS	TOTAL
EU countries	452,731,644	158,832,200	611,563,844
Other European countries	0	72,995,730	72,995,730
USA	45,679,267	502,677	46,181,944
Rest of the world	19,683,884	50,813,920	70,497,804
Total sales abroad	**518,094,795**	**283,144,527**	**801,239,322**
Total sales Italy	**36,528,333**	**674,586,788**	**711,115,121**
Total	**554,623,128**	**957,731,314**	**1,512,354,442**

Other income and revenues

The item "other income and revenues" was broken down as follows:

	YEAR 2019	YEAR 2018	CHANGES
Grants	4,137,504	3,900,734	236,770
Rentals	2,933,900	2,790,279	143,621
Ordinary capital gains	202,467	115,242	87,225
Royalties for the use of our trademarks	2,205,284	1,191,612	1,013,672
Charge-backs to Group companies	82,777,280	72,427,468	10,349,812
Income from compensation for damages	977,659	1,652,876	(675,217)
Contingent income	3,513,892	3,938,854	(424,962)
Other	1,884,384	3,471,101	(1,586,717)
Total	**98,632,370**	**89,488,166**	**9,144,204**

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Information required by Article 1, paragraph 125, of Law No. 124 of 4 August 2017

Pursuant to Article 3-*quater* of Legislative Decree 135/2018, for information on grants received, reference should be made to the Italian National Register of State Aid, Transparency section, which provides a complete list of grants disbursed by government entities.
Grants are identified on a cash basis. In accordance with the law, grants of less than €10 thousand per grantor have been excluded.
In addition to the information provided in the Italian National Register of State Aid, Transparency section, the following grants towards operating expenses have been recognised, together with the accrued share of capital grants the benefit of which was received in previous years:

Grants towards operating expenses

GRANTOR	AMOUNT RECEIVED (€)	DESCRIPTION
FONDIMPRESA	109,272	Training programme
---	2,985,178	R&D bonus Re. Art. 1, paragraph 35, Law 190/2014
GSE	216,817	Grants for photovoltaic systems as per Ministerial Decree of 19/02/07 (New Energy Account)
Total	**3,311,267**	

Capital grants

GRANTOR	AMOUNT RECEIVED (€)	DESCRIPTION
---	407,879	R&D bonus Re. Art. 1, paragraph 35, Law 190/2014
---	418,358	Bonus for investments in new operating assets Ateco 28
Total	**826,237**	

Rental income refers to payments for coffee, vending and OCS machines installed on customers' premises.

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

The item "royalties for the use of our trademarks" mainly refers to the licences for using the Carte Noire trademark in France and the Lavazza trademark in France, the USA, Canada, Mexico, South Korea and Japan.

Costs charged back to subsidiaries of €82,777,280 refer to promotional, transport, administrative and IT services.

The item "contingent income" refers primarily to promotional contributions and costs recognised in previous years and found not to be due during the year.

Net revenues from subsidiaries and included in value of production are as follows:

	NET REVENUES	OTHER INCOME	TOTAL
DIRECT SUBSIDIARIES			
Lavazza Argentina S.A.	559,977	69,812	629,789
Lavazza Australia Pty Ltd	15,761,590	3,307,098	19,068,688
Lavazza Capital S.r.l	0	140,000	140,000
Lavazza Coffee (UK) Ltd	59,303,805	10,180,702	69,484,507
Lavazza Deutschland G.m.b.H.	91,141,562	19,636,057	110,777,619
Lavazza do Brasil Ltda	526,807	54,544	581,351
Lavazza France S.a.s.	50,743,494	1,813,653	52,557,147
Lavazza Kaffee G.m.b.H.	8,794,905	1,546,202	10,341,107
Lavazza Netherlands B.V.	0	10,017	10,017
Lavazza Premium Coffees Co.	45,679,267	17,235,570	62,914,837
Lavazza Profesisonal Holding EU S.r.l.	0	653,403	653,403
Lavazza Professional Holding NA Inc	0	7,186,400	7,186,400
Lavazza Spain S.L.	0	19,734	19,734
Lavazza Sweden AB	8,695,951	1,465,018	10,160,969
Carte Noire S.a.s.	200,020,236	20,308,464	220,328,700
Cofincaf S.p.A.	4,898	98,718	103,616
Kicking Horse Coffee Co. Ltd	0	152,628	152,628
Merrild Kaffe ApS	34,031,691	2,263,019	36,294,710
Nims S.p.A.	36,434,633	931,624	37,366,257
RELATED COMPANIES			
Chili S.p.A.	0	2,500,000	2,500,000
Lavazza Eventi s.r.l.	46,277	354,977	401,254
Lea S.r.l.	42,525	183,736	226,261
INDIRECT SUBSIDIARIES			
Fresh & Honest Café Ltd	120,152	15,000	135,152
Carte Noire Operations S.a.s	0	386,313	386,313
Lavazza Australia OCS	2,715,358	497,257	3,212,615
Lavazza Professional Germany G.m.b.H.	0	129,476	129,476
Lavazza Professional France	0	25,545	25,545
Lavazza Professional Japan GK	0	13,574	13,574
Lavazza Professional Holding NA	0	266,590	266,590
Lavazza Professional UK Ltd	0	160,427	160,427
	554,623,128	**91,605,558**	**646,228,686**

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Costs of production

Raw materials, ancillaries, consumables and goods

Purchases for the year were broken down as follows:

	YEAR 2019	YEAR 2018	CHANGES
Raw materials	602,725,517	606,786,631	(4,061,114)
Goods	123,046,435	138,822,828	(15,776,393)
Miscellaneous ancillary material	6,382,933	5,934,070	448,863
Total	**732,154,885**	**751,543,529**	**(19,388,644)**

The decrease in the cost of raw materials relates to the decline in the market price of green coffee. The decline in the cost of goods is attributable to the decrease in the price and volumes of the coffee machines purchased.

Costs of services

The main costs of services were as follows:

	YEAR 2019	YEAR 2018	CHANGES
Commercial and sales costs	336,466,892	333,030,580	3,436,312
Ancillary purchasing and production costs	127,672,739	114,612,417	13,060,322
Other minor items	56,983,661	65,940,636	(8,956,975)
Total	**521,123,292**	**513,583,633**	**7,539,659**

The increase in commercial and selling costs was mainly due to the higher costs of shipping to end customers and marketing advisory services, partially offset by a decrease in entertaining and hospitality costs.

Ancillary purchasing and production costs increased due to the rise associated with technical advisory services, industrial utilities and greater rental and transport expenses.

The item "other" decreased as a result of lower costs for advisory and general and administrative services.

Remuneration to Directors and Statutory Auditors for their activities during the year are indicated hereunder:

	TOTAL REMUNERATION PAID
Directors' fixed remuneration	1,485,494
Statutory Auditors' fixed remuneration	183,387
Total	**1,668,881**

Use of third-party assets

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

	YEAR 2019	YEAR 2018	CHANGES
Lease of software and electronic equipment	6,772,906	6,206,637	566,269
Vehicle leases	3,850,358	3,290,120	560,238
Other leases	1,299,931	1,401,722	(101,791)
Property leases	8,791,781	7,612,179	1,179,602
Royalties for use of trademarks and patents	779,394	444,753	334,641
Total	**21,494,370**	**18,955,411**	**2,538,959**

The most significant increase relates to the costs of payments for the lease of the entire property complex that houses the Company's headquarters and refers to the inclusion of the final portion of the construction work and the exercise of the option to transform the interest rate from variable to fixed provided for in the lease contract.

Personnel expenses

Personnel expenses include wages, corresponding contributions, employee termination indemnities paid and the total cost of temporary employment.
The item "other personnel expenses" includes voluntary contributions for integrating insurance and pension schemes, one-off subsidies and gifts.

The average number of employees and total headcount at year-end, broken down by category, is set out in the table below:

CATEGORIES	AVERAGE 2019	HEADCOUNT AT 31.12.2019	AVERAGE 2018	HEADCOUNT AT 31.12.2018
Executives	101	97	101	102
Managers	95	96	84	92
Middle Managers	159	157	153	159
White Collar	663	684	616	640
Travelling personnel	165	171	165	163
Blue Collars	505	496	523	515
Total	**1,688**	**1,701**	**1,642**	**1,671**

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Amortisation, depreciation and write-downs

The breakdown in the sub-items has already been reported in the statement of profit or loss; see the comments on the relevant item included in the balance sheet.

Provisions for risks and other provisions

These refer to the following items:

	YEAR 2019	YEAR 2018	CHANGES
PROVISIONS FOR RISKS:			
for legal charges and litigations	4,024,686	22,540,000	(18,515,314)
for restructuring	0	1,200,000	(1,200,000)
for future risks and charges	12,100,000	74,675	12,025,325
for HR litigation	0	229,833	(229,833)
Total provisions for risks	**16,124,686**	**24,044,508**	**(7,919,822)**
OTHER PROVISIONS:			
for guarantees and endorsements	388,382	3,692,993	(3,304,611)
Total other provisions	**388,382**	**3,692,993**	**(3,304,611)**

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

Other operating charges

The following table shows the main components:

	YEAR 2019	YEAR 2018	CHANGES
Miscellaneous taxes and duties	2,778,856	2,542,509	236,347
Association duties	730,787	660,905	69,882
Other gifts and advertising material	6,213,792	5,862,979	350,813
Capital losses	3,607	81,855	(78,248)
Social charges	4,530,119	6,007,079	(1,476,960)
Other	2,526,218	4,782,649	(2,256,431)
Total	**16,783,379**	**19,937,976**	**(3,154,597)**

Capital losses were entirely related to ordinary operations.

The main item relates to the donations to recognised non-profit organisations and entities, and in particular the Giuseppe and Pericle Lavazza Foundation, founded in 2004, which promotes and executes economic, social and environmental sustainability projects for coffee-growing communities worldwide.

Production costs pertaining to subsidiaries were as follows:

	COSTS FOR PURCHASES	COSTS FOR SERVICES	COSTS FOR USE OF THIRD-PARTY ASSETS	COSTS FOR OTHER OPERATING EXPENSES	COSTS FOR FINANCIAL EXPENSE	TOTAL
DIRECT SUBSIDIARIES						
Lavazza Australia Pty Ltd		384,575				384,575
Lavazza Coffee (UK) Ltd	61,938	161,568				223,506
Lavazza Deutschland G.m.b.H.	119,204				8,359	127,563
Lavazza do Brasil Ltda		55,501				55,501
Lavazza France S.a.s.	106,481	83,146			5,478	195,105
Lavazza Kaffee G.m.b.H.	52,959					52,959
Lavazza Maroc S.a.r.l.		133,509				133,509
Lavazza Netherlands B.V.		217,308				217,308
Lavazza Premium Coffees Corp.		464,052				464,052
Lavazza Spain S.L.		424,403				424,403
Lavazza Trading (Shenzhen) Co. Ltd		874,324				874,324
Carte Noire S.a.s	142,632	1,053,175			9,987	1,205,794
Cofincaf S.p.A.		624,157		603,625		1,227,782
Immobiliare I.N.N.E.T S.r.l.			58,451			58,451
Kicking Horse Coffee Co. Ltd		156,197				156,197
Merrild Kaffe ApS	11,609	1,810,474				1,822,083
Nims S.p.A.	358	2,141			2,064	4,563
INDIRECT SUBSIDIARIES						
Carte Noire Operations S.a.s		27,097,358			266	27,097,624
RELATED COMPANIES						
Chili S.p.A.	2,379,000	3,058,200				5,437,200
Lea S.r.l.		373,836				373,836
Lavazza Entertainment S.r.l.					427	427
Lavazza Eventi S.r.l.	72,421	978,478	200		426	1,051,525
Total	**2,946,602**	**37,952,402**	**58,651**	**603,625**	**27,007**	**41,588,287**

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Financial income and expense

Financial income

The following table shows the main components:

	YEAR 2019	YEAR 2018	CHANGES
Income from investments			
Dividends from subsidiaries	41,532,409	16,912,676	24,619,733
Total	**41,532,409**	**16,912,676**	**24,619,733**

Dividends from subsidiaries consisted of:

CURRENCY	AMOUNT	COMPANY
EUR	5,000,000	Lavazza Capital S.r.l.
EUR	13,066,711	Nims S.p.A.
EUR	4,500,000	Lavazza Deutschland G.m.b.H.
EUR	1,102,930	Lavazza Kaffee G.m.b.H.
EUR	1,500,000	Lavazza France S.a.s.
EUR	10,000,000	Carte Noire S.a.s
EUR	4,012,825	Lavazza Coffee (UK) Ltd
EUR	2,349,942	Lavazza Premium Coffees Co.
Total	**41,532,409**	

Other financial income was broken down as follows:

	YEAR 2019	YEAR 2018	CHANGES
INTEREST INCOME:			
on non-current receivables	6,691,119	1,058,517	5,632,602
from subsidiaries and associates	3,261	0	3,261
from companies controlled by the Parent Company	294	0	294
on bank current accounts	124,229	1,043,690	(919,461)
Total interest income	**6,818,903**	**2,102,207**	**4,716,696**

The item “interest income on non-current receivables from subsidiaries and associates” mainly refers to the interest accrued at year-end on the loans granted to the subsidiaries Lavazza Professional Holding North America Inc., Lavazza Professional Holding Europe S.r.l. and Lavazza Australia OCS Pty, and to the pro-rated amount accrued during the year on the extinguished loans to Lavazza Australia Pty, Ltd and Carte Noire Operations S.a.s.
The other interest income from subsidiaries, associates and companies controlled by the parent company refer to the interest income accrued on the centralised treasury account.

Financial expense

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

	YEAR 2019	YEAR 2018	CHANGES
INTEREST EXPENSE:			
from subsidiaries and associates	26,155	0	26,155
from companies controlled by the Parent Company	853	0	853
receivables from credit institutions	6,081,914	3,614,927	2,466,987
Total interest expense	**6,108,922**	**3,614,927**	**2,493,995**
EXPENSES AND COMMISSIONS:			
charges from subsidiaries and associates	603,625	664,500	(60,875)
Total expenses and commissions	**603,625**	**664,500**	**(60,875)**
Total interest and financial expense	**6,712,547**	**4,279,427**	**2,433,120**

The other interest expense to subsidiaries, associates and companies controlled by the parent company refers to the interest expense accrued on the centralised treasury account.

The item “interest expense to credit institutions” increased mainly as a result of the interest accrued at year-end on the two corporate loans, contracted in 2016 and 2018, respectively, with an initial amount of €400 million each.

Exchange gains and losses

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

	YEAR 2019	YEAR 2018	CHANGES
Unrealised exchange gains	8,549,154	2,089,521	6,459,633
Realised exchange gains	5,262,834	4,868,626	394,208
Total exchange gains	**13,811,988**	**6,958,147**	**6,853,841**
Unrealised exchange losses	641,221	4,591,284	(3,950,063)
Realised exchange losses	3,945,945	6,203,287	(2,257,342)
Total exchange losses	**4,587,166**	**10,794,571**	**(6,207,405)**
Net exchange gains (losses)	**9,224,822**	**(3,836,424)**	**13,061,246**

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Value adjustments to financial assets

Adjustments refer to:

Lavazza Argentina S.A.	(864,527)
Lavazza do Brasil Ltda	(1,070,941)
Lavazza Netherlands B.V.	(474,776)
Immobiliare I.N.N.E.T S.r.l.	(637,053)
Totale	**(3,047,297)**

and are equal to the reduction in investees' assets which are considered as impairments.

The write-down on the investment in Lavazza Netherlands B.V. does not include the Euro/Rupee exchange delta at 31 December 2019, inasmuch as it was not deemed permanent.

The company does not hold derivatives of a speculative nature.
However, where the derivatives do not meet all the conditions for applying hedge accounting treatment imposed by the standard OIC 32, changes in the fair value of the instruments are taken to the statement of profit or loss as adjustments reducing the value of financial assets and liabilities.

Write-ups and write-downs of derivatives amounting to €2,567,494 and €3,476,656, respectively, refer to the ineffective component of the derivatives contracted to hedge against foreign exchange, interest rate and commodity risks and subject to hedge accounting, since they met all the conditions for the hedge accounting treatment of derivatives as per OIC 32.

Income taxes for the year

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

CURRENT TAXES FOR THE YEAR	
IRES (corporate income tax)	17,294,717
IRAP (regional production tax)	3,890,142
Prior years' taxes	(10,798,293)
Allocation to provision for future taxes	2,350,910
DEFERRED TAXES FOR THE YEAR	
Provision for deferred tax assets	(13,629,008)
Reversals of deferred tax assets	8,589,502
Provision for deferred tax liabilities	1,441,228
Reversals of deferred tax liabilities	(11,547)
Total taxes	**9,127,651**

The positive balance of the item "prior years' taxes" is primarily due to the tax relief scheme for income on the use of intangible assets for the period 2015-2018 due to the signing of an advance agreement with the Italian Agency of Revenue pursuant to Article 1, paragraph 37, of Law No. 190 of 23 December 2014 ("Patent Box").
The accrual to the provision of €2,350,910 was due to taxes and related interest not yet paid by the Company as at 31 December 2019 as a result of the higher tax base established in the MAP negotiation between the Italian tax authority and, respectively, the French, English and German tax authorities, referring to the 2010 tax period.

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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:

NATURE	YEAR 2018			YEAR 2019							
	BALANCE AT YEAR-START		BALANCE AT YEAR-START	INFLOWS			PROVISIONS			BALANCE AT YEAR-END	BALANCE AT YEAR-END
	TAXABLE AMOUNT	%	TAX CHARGE	TAXABLE AMOUNT	%	TAX CHARGE	TAXABLE AMOUNT	%	TAX CHARGE	TAXABLE AMOUNT	TAX CHARGE
DEFERRED IRES TAXES											
Allocations to deferred deductibility provisions	87,313,387	24.0%	20,955,213	(32,584,199)	24.0%	(7,820,208)	56,557,452	24.0%	13,573,788	111,286,640	26,708,794
Unrealised exchange losses	2,507,162	24.0%	601,719	(2,507,162)	24.0%	(601,719)		24.0%	-	-	-
Statutory / tax differences from asset revaluation	6,517,413	24.0%	1,564,179	-	24.0%		-	24.0%		6,517,413	1,564,179
Statutory / tax differences depreciation	873,323	24.0%	209,598	(10,875)	24.0%	(2,610)	197,918	24.0%	47,500	1,060,366	254,488
Cash deductible costs	292,589	24.0%	70,221	(292,589)	24.0%	(70,221)	-	24.0%	-	-	-
PREPAID IRAP TAXES											
Allocations to non-deductible/ non-material provisions	37,017,709	3.9%	1,443,691	(37,017,709)	3.9%	(1,443,691)	-	3.9%	-	-	-
Statutory / tax differences from asset revaluation	6,517,413	3.9%	254,179	-	3.9%	-	-	3.9%		6,517,413	254,179
Statutory / tax differences depreciation	873,323	3.9%	34,060	(10,875)	3.9%	(424)	197,918	3.9%	7,719	1,060,366	41,354
Cash deductible costs	292,589	3.9%	11,411	(292,589)	3.9%	(11,411)	-	3.9%		-	-
Hedge reserve for expected cash flows			7,938,131			(7,304,846)			1,417,228		2,050,513
TOTAL DEFERRED TAX ASSETS			**33,082,401**			**(17,255,129)**			**15,046,236**		**30,873,507**
DEFERRED IRES TAX LIABILITIES											
Unrealised exchange gains		24.0%		-	24.0%	-	6,005,118	24.0%	1,441,228	6,005,118	1,441,228
Statutory / tax differences from M&As	882,937	24.0%	211,905	41,388)	24.0%	(9,933)	-	24.0%	-	841,549	201,972
DEFERRED IRAP TAXES											
Statutory / tax differences from M&As	882,938	3.9%	34,435	(41,388)	3.9%	(1,614)	-	3.9%	-	841,550	32,820
Hedge reserve for expected cash flows			1,206,798	-					4,291,383		5,498,181
TOTAL DEFERRED TAXES			**1,453,137**			**(11,547)**			**5,732,611**		**7,174,201**

The reversal of temporary differences in future years has been assessed on the basis of the best available estimates, in accordance with the prudence principle.

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

IRES (CORPORATE INCOME TAX)	TAXABLE AMOUNT	THEORETICAL TAX RATE	TAX CHARGE	EFFECTIVE TAX RATE
Gross profit	115,314,254	24.00%	27,675,421	24.00%
Higher tax charge	**40,146,152**		**9,635,076**	**8.36%**
of which for:				
Non-deductible taxes	2,226,650		534,396	0.46%
Non-deductible write-downs	3,047,297		731,351	0.63%
Non-deductible depreciation and amortisation	3,062,540		735,010	0.64%
Non-deductible provisions	22,478,256		5,394,781	4.68%
Other non-deductible costs	9,331,409		2,239,538	1.94%
Lower tax charge	**(83,268,444)**		**(19,984,427)**	**-17.33%**
of which for:				
Costs undeducted in previous years	-		-	0.00%
Dividends	(39,680,788)		(9,523,389)	-8.26%
Other deductible costs	(19,321,704)		(4,637,209)	-4.02%
Patent Box incentive	(11,700,000)		(2,808,000)	-2.44%
Gains from tax exemption (PEX scheme)	-		-	0.00%
Contribution for economic growth (ACE)	(12,565,952)		(3,015,828)	-2.62%
Actual IRES charge	**72,191,962**	**24.00%**	**17,326,070**	**15.03%**
Energy savings			(31,354)	
Net IRES			**17,294,716**	

IRAP (REGIONAL PRODUCTION TAX)	TAXABLE AMOUNT	THEORETICAL TAX RATE	TAX CHARGE	EFFECTIVE TAX RATE
Value of production (A-B)	248,488,706	3.94%	9,792,361	3.94%
Higher tax charge	**10,503,259**		**413,909**	**0.17%**
of which for:				
Costs for outsourced personnel	1,579,054		62,227	0.03%
Non-deductible depreciation and amortisation	239,306		9,430	0.00%
Other non-deductible costs	8,684,899		342,252	0.14%
Lower tax charge	**(160,276,605)**		**(6,316,128)**	**-2.54%**
of which for:				
Costs undeducted in previous years	(10,875)		(429)	0.00%
Use of deductible provisions	(16,399,599)		(646,270)	-0.26%
Deductible contributions and costs for personnel	(132,166,131)		(5,208,359)	-2.10%
Patent Box incentive	(11,700,000)		(461,070)	-0.19%
Actual IRAP charge	**98,715,361**	**3.94%**	**3,890,142**	**1.57%**

LAVAZZA GROUP

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Commitments, guarantees and contingent liabilities

Third-party guarantees in our favour	€12,983,145

This item consists of guarantees given in our favour by banks: €2,048,930 in the interest of the Ministry of Productive Activities for prize contests; €3,414,261 in the interest of the of the Revenue Agency for the tax audit and €4,964,254 for the application for VAT reimbursement to a Group company; JPY 100,000,000 in the interest of Tokyo Customs for import duties and taxes; and €81,000 in the interest of the A.E.M. Energia (Milan) and Edison Energia S.p.A. (Pozzilli) for gas supplies; €204,093 to the Region of Piedmont for clearance work and safety assessment associated with the new headquarters; €16,702 to Consorzio Nucleo Sviluppo Industriale Isernia for drinking water supply; €682,773 to Customs; €748,473 for property leases; other minor amounts relating primarily for €51,650 to custom fees for import transactions and for €2,582 to the Verrès Municipality for waste collection.

Guarantees in favour of subsidiaries	€42,194,242

The account consists of €14,586,231 in guarantees in favour of Cofincaf S.p.A. to finance contracts with Ho.Re.Ca. customers and €27,608,011 for financing customers' purchases of vending machines for beverages.

Subsidiary for collection of credits	€20,534,455

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

Leasing company for upcoming lease payments	€80,201,937

Upcoming lease payments to be made to the leasing company as per finance lease agreement entered into for the construction of the Company's headquarters.

SUPPLEMENTARY INFORMATION AND STATEMENTS

Consideration owed to the Independent Auditors

(pursuant to Article 2427, paragraph 16-*bis*, of the Italian Civil Code)

The information required by the above-mentioned regulation is included in the Notes to the Consolidated Financial Statements of the Lavazza Group at 31 December 2019 prepared by the Company.

Related party transactions

(pursuant to Article 2427, paragraph 1, No. 22-*bis*, of the Italian Civil Code)

With reference to the provisions of applicable legislation, in the reporting year the Company carried out related party transactions that were concluded at arm's length conditions. In particular, a master commercial cooperation agreement for 2019 was entered into with Chili S.p.A. for the promotion of the respective brands within the framework of cinema events and prize competitions, which entailed costs of approximately €5 million and net revenue of €2.5 million for the Company.

Off-balance sheet arrangements

(pursuant to Article 2427, paragraph 1, No. 22-*ter*, of the Italian Civil Code)

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

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Post balance sheet events

(pursuant to Article 2427, paragraph 1, No. 22-*quater*, of the Italian Civil Code)

The first few months of 2020 were characterised by the progressive spread of Covid-19. This health emergency initially affected China, resulting in a business shutdown in January and February 2020, with severe repercussions on trade and access to finished and semi-finished goods manufactured in China.
In March, the spread of the epidemic began to take on a global dimension, resulting in the introduction of large-scale restrictions on commerce and industry, starting in Italy. This situation could have adverse consequences, in both the near and medium term, within a framework of macroeconomic deterioration at the national and global level.
With regard to the green coffee market, 2020 began with prices declining sharply for Arabica, which shifted from 130 cents/lb at the beginning of the year to the current 103.
The decline was more modest, and the trend more clearly defined, in London, which fell from 1,380 USD/t at the beginning of January to the current 1,300 USD/t.

Company preparing the consolidated financial statements

(pursuant to Article 2427, paragraph 1, No. 22-*quinquies/sexies*, of the Italian Civil Code)

FINLAV S.P.A.
Registered Offices: Via Bologna 32 - 10152 TURIN, Italy
Fully paid-up share capital: 167,500,000
Tax code and Turin Company Register No. 03028560153
Turin Economic and Administrative Index (REA): 910824

ALLOCATION OF THE PROFIT FOR THE YEAR

(pursuant to Article 2427, paragraph 1, No. 22-*septies*, of the Italian Civil Code)

Reiterating that legal reserve has reached the limit set forth by Article 2430 of the Italian Civil Code, we recommend that the profit for the year, which amounted to €106,186,602.70, be allocated as follows: to the 22,500,002 outstanding shares a dividend of €2.23 per share, totalling €50,175,004.46 overall; to the restricted reserve for exchange gains an amount of €7,907,933; and the remaining €48,103,665.24 as profit carried forward.

Turin, 25 March 2020

LAVAZZA GROUP

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STATUTORY AUDITORS' REPORT

JOINT STOCK COMPANY LUIGI LAVAZZA S.p.A
Registered Offices: 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 2019

LAVAZZA GROUP

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Shareholders,

This Report has been approved collegially for filing at the Company's offices in view of the Shareholders' Meeting called to approve the Financial Statements commented herein.

The governing body has thus provided access to the following documents approved on 25 March 2020 concerning the year ended 31 December 2019:

- the draft Financial Statements, including the Notes and the Statement of Cash Flow; 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 long-standing 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;

and in light of the Company's size and concerns, it bears reiterating that the "planning" phase of the 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;

- the foregoing is indirectly borne out by a comparison of the figures from the Statement of Profit or Loss for the past two years, i.e., the reporting year (2019) and the previous year (2018). It may also be observed that in 2019 the Company operated on comparable terms to the previous year, and thus that our controls were performed on this basis, having verified that the values and results are essentially comparable with those from the previous year.

This Report thus summarises the activity relating to the information provided for in Article 2429, paragraph 2, of the Italian Civil Code, and namely:

- the results for the year;
- the activity performed in fulfilment of statutory duties;
- remarks and proposals concerning the Financial Statements, with particular regard to any use by the governing body of derogations pursuant to Article 2423, paragraph 4, of the Italian Civil Code.

The activities performed by the Board of Statutory Auditors concerned the entire financial year. The meetings set out in Article 2404 of the Italian Civil Code were regularly held and specific minutes for such meetings were drafted and duly signed in unanimous approval.

Activities performed

During its periodic controls, the Board of Statutory Auditors obtained information about the course of the Company's business, with a particular focus on problems of a contingent and/or extraordinary nature, so as to identify their impact on the Company's operating result for the year and financial structure, in addition to any risks, such as those due to losses on receivables, which are subject to regular monitoring.

The Board of Statutory Auditors periodically assessed the adequacy of the Company's organisational and functional structure and any changes with respect to minimum needs in light of operating performance.

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Relations with the persons operating within the above structure — directors, employees and consultants — are inspired by mutual collaboration in accordance with the roles assigned to each.

For the entire year, it was determined that:

- the level of its technical preparation remained adequate to the type of ordinary corporate events to be recorded and it possessed sufficient knowledge of the Company's concerns;
- the external consultants and professionals engaged to provide assistance with tax, corporate and labour law matters did not change and they thus possessed long-standing knowledge of the business conducted and ordinary and extraordinary operating issues that affected the results presented in the Financial Statements.

The information required by Article 2381, paragraph 5, of the Italian Civil Code was provided by the Chief Executive Officer. In conclusion, to the extent it was possible to determine in the course of the activity performed during the year, the Board of Statutory Auditors may state that:

- the decisions made by the shareholders and governing body were compliant with the law and Articles of Association and were not imprudent or such as to definitively jeopardise the Company's financial integrity;
- sufficient information was obtained about the general operating performance and business outlook, and about the most significant transactions undertaken by the Company in terms of size or characteristics;
- the transactions undertaken were also compliant with the law and Articles of Association and not in potential conflict with the resolutions passed by the Shareholders' Meeting or such as to definitively jeopardise the Company's financial integrity;
- we have no specific remarks concerning the adequacy of the Company's organisational structure, the adequacy of its administrative and accounting system or the latter system's reliability in properly representing operating events;
- in the course of our supervisory activity, as described above, we did not bring to light additional material facts that would have required mention in this report;
- 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 as at and for the year ended 31 December 2019 have been approved by the governing body and comprise the Balance Sheet, Statement of Profit or Loss, Statement of Cash Flow and the Notes.

In addition:

- the governing body has also prepared the Report on Operations pursuant to Article 2428 of the Italian Civil Code;
- those documents were delivered to the Board of Statutory Auditors in time to be filed at the Company's registered office, accompanied by this report;
- statutory auditing has been entrusted to the auditing firm EY S.p.A., 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;

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- 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 Statement of Profit or Loss (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 Statements, 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 complements the tables of the Balance Sheet and Statement of Profit or Loss 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, points 5 and 6, of the Italian Civil Code, the Board of Statutory Auditors also granted its consent to the recognition of amounts allocated to the item development costs and goodwill, 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 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.

Result for the year

The net profit reported by the governing body for the year ended 31 December 2019 is possible at €106,186,603.

Conclusions

On the basis of the foregoing, as ascertained by the Board of Statutory Auditors' and in the course of the periodic controls performed, it is our opinion that there is no impediment to your approval of the draft Financial Statements for the year ended 31 December 2019, as drafted, as well as of the allocation of the net profit for the year, as submitted to you by the governing body.

Turin, 14 April 2020

On behalf of THE STATUTORY AUDITORS

The Chairman

(Gianluca FERRERO)

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INDEPENDENT AUDITORS' REPORT

LAVAZZA GROUP

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Building a better working world

Luigi Lavazza S.p.A.

Financial statements as at December 31, 2019

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

Building a better working world

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Via Meucci, 5
10121 Torino

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

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

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Luigi Lavazza S.p.A. (the Company), which comprise the balance sheet as at December 31, 2019, 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, 2019, and of its financial performance and its cash flows for the year then ended in accordance with the Italian regulations governing financial statements.

Basis for Opinion

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

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

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

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

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 Lombardia, 31 - 00187 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
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Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

GROUP

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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, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of Luigi Lavazza S.p.A. are responsible for the preparation of the Report on Operations of Luigi Lavazza S.p.A. as at December 31, 2019, 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, 2019 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the financial statements of Luigi Lavazza S.p.A. as at December 31, 2019 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 14, 2020

EY S.p.A.
Signed by: Stefania Boschetti
(Auditor)

This report has been translated into the English language solely for the convenience of international readers.

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Registered and administrative offices:
Via Bologna 32 – 10152 Turin – Italy
Subscribed and fully paid-up capital: € 25,000,000
Tax code and registration No. at the Turin Register of Companies: 00470550013

PREPARED BY

Financial Reporting & Accounting Department

EDITORIAL SUPPORT

Corporate Communication Department

GRAPHIC CONCEPT AND DESIGN

SGI Società Generale dell'Immagine S.r.l.
Turin

TRANSLATED BY

Koinè - Trieste

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Turin

Printed in Italy
July 2020

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