ANNUAL REPORT 2020

LAVAZZA
GROUP

Company Officers

BOARD OF DIRECTORS

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Giuseppe	Lavazza	Vice Chairmen
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Antonio	Baravalle	Chief Executive Officer
Antonella	Lavazza	Directors
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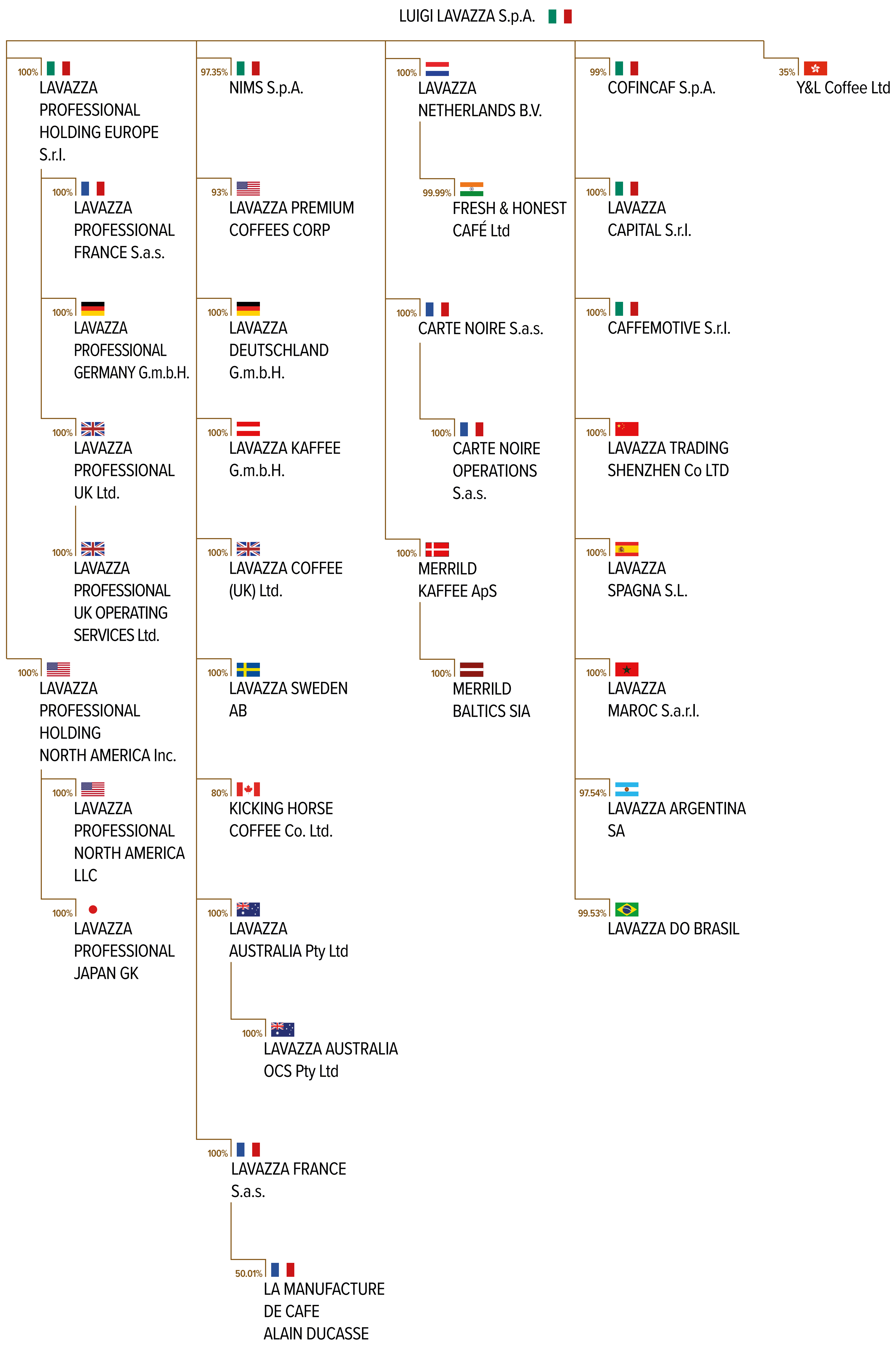
Bernardo	Bertoldi	

INDEPENDENT AUDITORS

EY S.p.A.

Group Structure



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Letter to Shareholders

Dear Shareholders,
The financial year ended 31 December 2020 closed with a Group's consolidated result of €72,878 thousand based on the IFRS and Luigi Lavazza S.p.A.'s positive result of €91,470 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, the 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.

In the year just ended, in a highly complex economic and social scenario in which the Covid-19 health emergency severely impacted world markets, the Group achieved a turnover of €2.085 billion and a solid growth in the main markets, despite all the difficulties, tackling every challenge not only as a Global Group but, first and foremost, as a community of people working together.

In this particularly difficult context, the Group reported the same excellent cash generation as the previous year, an exceptional figure that testifies to the effective management of the Company's resources. The growth — well above that of the consumer market in the At Home channel — is a measure of the robust solidity and competitiveness of the Group that also confirmed its market share leadership in the historically rich and vibrant coffee beans segment, which is more similar to its own commercial offer.

The achievement of excellent economic and financial results was accompanied by the continuation of all the Research & Development investments and the launch of a well-structured environmental sustainability strategy focused on circular economy and carbon neutrality, aimed at reducing the environmental impact and making a positive long-term contribution, in line with the UN Sustainable Development Goals, particularly Goal 12 – Responsible Production and Consumption, and Goal 13 – Climate Action.

Finally, in the wake of a long history of social responsibility, which began with the Company's foundation in 1895, economic support in the fight against the Covid-19 pandemic continued to be provided to the communities in which the Group operates, with the allocation of €12.5 million to the healthcare system, schools and vulnerable groups not only in its own region, but also in the coffee-producing countries.

The Chairman of the Board of Directors

Alberto Lavazza

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Group highlights

Group's result for the year

The following table shows the Group's operating and financial highlights at 31 December 2020 compared with the previous year:

€ million	2020	Ratio %	2019	Ratio %
NET REVENUES	2,085.3	100.0%	2,199.7	100.0%
EBIT	107.7	5.2%	156.0	7.1%
EBITDA	252.8	12.1%	290.6	13.2%
ADJUSTED EBITDA (BEFORE NON RECURRING ITEMS)	266.4	12.8%	300.7	13.7%
PROFIT FOR THE YEAR	72.9	3.5%	127.4	5.8%
CAPEX	111.1		157.0	
NET FINANCIAL POSITION	(101.7)		(82.1)	
EQUITY ATTRIBUTABLE TO THE GROUP	2,347.0		2,391.2	
HEADCOUNT AT 31/12/2020	4,172		4,022	

A history made of innovation

Over 125 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 of Lavazza products.

In the early decades of the 20th century, Lavazza was the first company to locally distribute coffee in bags bearing its logo. In 1950, the Company used for the first time 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 decaffeinated coffee and 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.

Among the first 100 brands in the world by reputation according to the Reputation Institute, Lavazza has been able to develop its brand awareness through important partnerships perfectly in tune with its brand internationalisation strategy, such as those in the world of sport with the Grand Slam tennis tournaments, and those in the fields of art and culture with prestigious museums like New York's Guggenheim Museum, Milan Triennale and The Hermitage State Museum in St. Petersburg, Russia.

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A multibrand Group

The Lavazza Group is among the major players in the global coffee arena, with a portfolio of leading brands on reference markets such as Lavazza, Carte Noire, Merrild and Kicking Horse.
It operates in 140 markets — across all business segments — with 9 production plants in 6 countries and over 4,000 employees worldwide.
A global presence that is the result of a growth path that has lasted for over 120 years, as well as of investments in research and innovation, with a constant focus on sustainability. Over 30 billion cups of coffee produced every year bear witness today to a great success story.
Each year Lavazza purchases more than 200,000 tonnes of coffee of over 100 different varieties. The selected coffee roasting and grinding methods are aimed at enhancing the nuances of taste and aroma characterising each origin.
In the development of services and products, including both coffee and machines, pertaining to all brands, the utmost attention is devoted to quality, which is ensured through strict controls at every phase of the process, from supplier selection to production. Each new blend or single origin is also tasted personally by members of the Lavazza family, who evaluate it with the knowledge and experience gained in over 120 years of coffee production. Only after their approval and a thorough production, control and packing process, are they ready to be sold and offer that extraordinary taste experience that distinguishes all the Group's products.

Brands

The Group brings together the global Lavazza brand with the brands Carte Noire, Kicking Horse and Merrild, each a market-leader in its country, all united by a focus on quality, yet quite distinct in terms of characteristics and personality.

Lavazza

Lavazza — the Group's global brand — is synonymous with authentic Italian coffee around the world.
Lavazza is a consolidated, historic leader in Italy's retail chains, where it is present in all business segments — At Home, Away from Home and OCS — with dedicated products and solutions. It can also count on excellent brand awareness and reputation in all the most strategically important markets, also thanks to its constant commitment to sustainability.
A communication innovator, over the years the Lavazza brand has also built its global identity through partnerships in the areas of top gastronomy, sport and culture.
The brand evokes sustainability, taste and wellbeing, and offers experiences that go well beyond the pleasure of an excellent espresso.

Carte Noire

Carte Noire, an icon of the French art of coffee, is the leading retail coffee brand in France, well known since its foundation for its extremely high-quality coffee. Thanks to the vision of its founder, René Monnier, since 1978 Carte Noire has stood out for its refined blends and for being the first player in the French market to offer 100% Arabica products. In a country famous for appreciating the quality of wine and cuisine, René Monnier succeeded in doing the same with coffee, thanks to innovative communication inspired by cinema. Today, Carte Noire is the number-one brand by penetration, reputation and image in the French coffee market. It is a perfect brand for the Lavazza Group, of which it has been part since 2016.

Kicking Horse Coffee

Kicking Horse Coffee was founded in 1996 in Invermere (British Columbia), in the Canadian Rocky Mountains, where founders Elana Rosenfeld and Leo Johnson dreamed of creating an innovative coffee roasting company and took an artisanal approach, experimenting with the art of roasting and blending coffee grown according to strictly natural methods. Over time, the brand focused increasingly on organic fair trade coffee, and today all its products are certified 100% organic and fair trade.
Kicking Horse is currently the leader in the North American organic coffee sector and has been recognised in Canada as the most trusted brand according to the Gustavson Brand Trust index 2019. It joined the Lavazza Group in 2017.

Merrild

Merrild was founded in Denmark as a result of the passion of Møller Merrild, an entrepreneur who in 1964 opened a small coffee roasting company in Fredericia, a small Dutch municipality on the shore of the North Sea, driven by a desire to improve the coffee blends available on the market. His research resulted in the development of high-quality recipes with unmistakable flavour — some of which remain unchanged to these days — propelling the brand's growth into a leader of the coffee market in Denmark and the Baltics. This prominent role is also reflected in the brand's intense social sustainability activity. In line with the Lavazza Group's focus on quality, Merrild joined it in 2015.

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Business segments

The Lavazza Group's wide offering, dedicated to both At Home and Away From Home consumption, is distributed across all sales channels: Retail, Foodservice, Office Coffee Service (OCS) and Vending. This strong presence makes available to all consumers and customers the most suitable solutions on every occasion, in every moment of the day.

RETAIL

Within the At Home consumption channel, the Lavazza Group has a very strong position in a number of key markets such as Italy (under the Lavazza brand), France (under the Carte Noire brand), Denmark and the Baltics (under the Merrild brand) and Canada (under the Kicking Horse brand). The range, differentiated by country, includes whole bean and ground coffee products — for espresso, moka coffee pot and filter systems — pods, instant coffee, ready-to-drink beverages and capsules for the world's most common home systems, suited to meeting every consumer's taste requirements.
In addition to a broad presence in mass retail and specialist stores, the Group also markets its At Home products through Nims, which joined the Group in 2017 and offers its customers direct door-to-door sale of coffee products and prompt, timely warranty and support service, thanks to a network of personal coffee shoppers who create a direct relationship of trust with their customers.
Finally, Group brand products can also be purchased online, through an advanced e-commerce platform including the direct shops of proprietary sites, a presence on marketplaces and on the major retailers' online channels.

FOODSERVICE

Hotels, Restaurants, Cafés (HO.RE.CA)

The Lavazza Group's range of products for this channel provides sector professionals dedicated, tailor-made products and solutions for all service modes and types of coffee preparation.
Quality in every cup is ensured making available a vast selection of professional machines, specific service materials and communication materials, which allow to leverage all aspects of the coffee ritual.
The Lavazza Training Center provides day-to-day support to clients in their activities through training programmes focusing on theory and operational consulting, directly on site, provided by a team of specialists who operate according to the international standards of excellence set by the SCA (Specialty Coffee Association).
In addition to coffee, the range is rounded out by complementary products such as hot chocolate, ginseng and barley beverages, tea, infusions and granitas.

Retailing

In this channel, the Lavazza brand has proprietary and franchised stores, through which it establishes a direct relationship with the consumer.
The first Lavazza Flagship Store was inaugurated in Milan in 2017. A point of sale was also opened in Shanghai in early 2020, with a subsequent development plan, in partnership with Yum China: a key market on which coffee consumption has considerable potential.

Lavazza Flagship Stores' offer is structured around an immersive, complete experience of the product, which is celebrated in all its forms, from the most traditional, such as espresso, to the most surprising aspects of coffee design.

OFFICE COFFEE SERVICE (OCS) AND VENDING

In order to ensure that consumers enjoy an excellent cup of coffee everywhere, Lavazza has developed a specific range for the various consumption occasions.
Drawing on more than 30 years of experience with capsule-based systems and vending machines, in recent years the Lavazza Group has strengthened its presence in the B2B market by acquiring the French ESP (Espresso Service Proximité), the Australian Blue Pod and the Lavazza Professional business, which operates on numerous key markets for the Group: the USA, the United Kingdom, France, Germany and Japan. This is a business that requires great technological and service skills, in order to provide its consumers with an excellent cup of coffee anywhere.

Office Coffee Service (OCS)

Very special attention and care is paid to workplaces, offices in particular, with an offer that includes a wide range of coffee capsules and other beverages that can offer all consumers their favourite product every day, as well as a range of manual-use designer coffee machines suitable for any environment.
Cutting-edge systems such as the following are dedicated to this channel: Lavazza Firma, whose highly qualified supply and assistance service makes it possible to offer all the café-like variety also in the office; Flavia, by Lavazza Professional, featuring the characteristic Freshpack technology, designed to prevent cross-contamination between brews, whose innovative Odyssey 600 coffee machine with the Odyssey Cold module can dispense both hot and cold beverages and frothed fresh milk; and Lavazza Expert, designed for the North American market, which offers espresso, filter coffee and milk-based beverages. The supply and support service is offered by a network of highly selected partners. A rich, varied range suited to offices of all sizes, regardless of the number of employees.

Vending

Airports, stations, universities, factories, big companies, hospitals: however large the space or however high the footfall, the Lavazza Group can ensure the availability of its products anywhere.
In-cup quality is guaranteed by the use of free-standing and table-top vending machines capable of enhancing the sensory characteristics of a wide range of blends specifically developed for this channel.
The range is rounded out by a dedicated line of whole-bean products with distinctive traits. The Group offers a wide range of products and services for this channel under the Lavazza BLUE brand and, for Lavazza Professional, under the Klix brand, which has become a benchmark in sustainability through its Eco Cups, fully recyclable and compostable paper cups which reduce the environmental impact by over 63% compared to the coffee machines that use plastic cups.

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General performance and market scenario

In 2020, the global economy shrank for the first time since 2009 as a result of the measures taken in the main countries to contain the Covid-19 pandemic. The health emergency slowed economic activity for most of the first half of the year and — albeit to a less pronounced, more localised extent — in the final three months of the year.
It is estimated that the effort by the fiscal authorities to contain the impact of the lockdowns exceeded USD 10,000 billion in 2020, consisting of loan guarantees, direct grants to households and companies and investments, above all in the healthcare. At the same time, central banks lowered their interest rates to all-time lows and announced new bond purchasing programmes — or increased the existing ones — as well as the supply of liquidity to the financial system.
The US political programme launched by the recently elected President Biden calls for a massive public investment plan designed to ensure a transition to renewable energy sources and a greater focus on social issues and inequality, including through an increase in corporate income taxes.
In Europe, the crisis led to an historic decision: the creation of the €750 billion Next Generation EU fund to be focused on public investments aimed above all at the energy transition and digitalisation of the economy in support of the recovery. For the first time in the European Union's history, the plan calls for the transfer of financial resources from "virtuous" countries such as Germany to peripheral countries such as Spain and Italy, given that it is financed by bonds issued directly by the EU. Equally historic was the conclusion of the process of departure of the United Kingdom from the Union, implemented through a last-minute agreement that made effective the outcome of the June 2016 referendum.
China was the first country to be forced to implement severe pandemic containment measures as early as January 2020, thus recording, in the first quarter, its first annual decline in GDP since the introduction of national accounting in 1992. Italy suffered from the pandemic crisis more than other countries as it was the first Western country to have to confront it as early as February and due to the importance of tourism to the structure of its economy. In the second half of the year, the recovery of foreign demand and the reopening of businesses — at least in the third quarter — facilitated an economic recovery, which was however insufficient to prevent a decline in GDP for the full-year 2020, which was greater than those of 2009 and 2012-2013.

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Industry overview

Group positioning

At Home business

In the context of the Covid-19 pandemic emergency, the domestic food consumer goods segment has experienced an expected acceleration in average value global growth of almost 3 percentage points compared to pre-Covid growth (up from 4.7% to 7.4%), rising at different rates according to the geographical area and the degree to which Covid-19 has impacted the country (Food & Beverage Sector Report, November 2020, Edge by Ascential Retail Insight).
In fact, from March the more or less generalised lockdown scenarios favoured a shift in consumption from the away-from-home channels to the retail channel with consumers forced to change their habits by focusing mainly on consumption occasions at their home.
Growth was therefore driven by the increase in at home consumption, but also by temporary stockpiling by consumers due to a fear of repercussions for supplies, particularly during the harshest confinement period, with reduced promotional dynamics that favoured the value strategies.
The coffee retail market rose by 8% compared to 2019 in Lavazza's 15 major reference geographies (there had been a slight downturn in 2019), with the Lavazza brand outperforming the market trend in all the segments with double-digit growth due particularly to the beans and portioned segments that were 5-10 further points higher than the growth trend in the reference segments.
From a competitive point of view, the coffee category is experiencing strong pressure with the entry and/or globalisation of players that are driving a growth phenomenon in the premium segments, especially in portioned coffee, with sustained growth of products with a higher price positioning. At the same time, the dynamics in the multi-serve segments of the more mature geographies are instead impacted by continual promotion and competitive pressure for the defence of market shares. Lavazza benefits from its premium positioning and offering in numerous expanding markets, especially in the segments most covered by the brand offer, defending its own competitive position in the main geographies and also working on its portfolio's value levers.
Lavazza is growing with its brands in all the geographies with more moderate growth in the consolidated geographies (Italy, France and Denmark), whilst all the other ones show higher and very sustained growth driven partly by the effect of Covid-19 on the market, and partly also by the growth in the share of the Lavazza brand due especially to increases in terms of distribution and mix with considerable peaks in North America, Germany and Eastern Europe.
The pandemic has been a factor for sharp acceleration also for at-home consumption, with products delivered through the e-commerce channel given the restrictions on movement imposed in the various countries that have favoured online purchases. The absence of direct contact with other people throughout the buying process has given the perception that the online experience is more secure. New customers approached online purchasing for the first time and it is estimated that, for 35/40% of them, the move from traditional to online channels is permanent.
Different studies indicate that in the main markets (US, ITA, DE, FR, UK) the rate of penetration of online purchases of FMCG has doubled compared to pre-Covid rates. The greatest growth was reported in the home delivery and click&collect services offered by the traditional retailers who, in the first phase of the pandemic, were unable to satisfy demand completely.
In this context, Lavazza's e-commerce channel reported growth in line with the aforesaid acceleration in the main geographies, and even above the benchmarks in countries such as the US and the UK. To further strengthen the channel's growth and in addition to the initiatives to increase the channel's coverage already implemented/planned, the first few months of the year saw a further increase in online investment in terms of visibility, and promotional activities intensified particularly in the online platforms of the traditional retailers, as well as on the proprietary channels.

Away from Home business

Food Service (Ho.Re.Ca.)

Up to February, the channel started off well in a context of away-from-home consumption growth consistent with previous years' trends, but, from March, it was severely impacted by the effects of the pandemic. The various governments adopted a variety of restrictive measures during the year to contain the spread of the virus: the various directives put in place led the Ho.Re.Ca. world to two extremely challenging phases: the spring — with the most critical period between mid-March and mid-May — and the last few months of the year, with a temporary recovery in mid-summer primarily in the European countries (this was not the case of the United States and Australia, which had different dynamics).
The restrictions implemented generated different impacts among the various Ho.Re.Ca. segments:

- Strong decline in the traffic recorded in cafés and restaurants, with decreases that, compared to the pre-Covid period, ranged in April from -60% in Germany to -90% in Italy, from -88% in France to -80% in the United Kingdom. However, the sector benefitted from a recovery during summer, temporarily driving the traffic in cafés and restaurants in Italy and France back to almost pre-Covid levels. A new wave of restrictive measures in autumn entailed an interruption of this uptrend;
- Hotels as well witnessed a difficult context with reservations at global level in general decline compared to the previous year, especially during spring (April: -87%) and the end of year (October-November: -50%). According to the UNWTO (United Nations World Tourism Organisation), global hotel occupancy rate, which in 2019 stood at 70% on average, reached its low in April (22%), recovering in summer (45%) and decreasing once again in the last months of the year (40%);
- The travel sector suffered the heaviest repercussions, with an almost two-third decline of global air traffic between March and April compared to the pre-Covid-19 period. The summer recovery proved slow, as a result of the decrease in tourist flows that remained at very low levels for most part of the year, except for the summer period: said flows dropped between 70% and 80% at global level in 2020 (UNWTO).

The coffee consumption trend in the Food Service channel was in line with the general consumption trends throughout the channel as a result of the pandemic. The analysis of the countries served by Lavazza shows a strong correlation between the performance of the business units and the penetration level in the different segments of the local Ho.Re.Ca. market.
The most impacted geographies include: the USA due to the concentration of the business in the geographical areas and exposure to segments most affected by the pandemic; Italy and France, both with a sharp contraction between March and May and a good recovery in the first half of August driven by the relaxing of restrictions and partial recovery of domestic tourism flows, followed by the restrictions in the last quarter.
The least negatively impacted markets compared to the Group average include Eastern Europe and Middle East countries, which reported more moderate declines due to a slower initial spread of the virus compared to Western European countries and distribution activities that improved market share on previous years, as well as Asia, which saw China and Korea resuming activities as early as the end of second quarter 2020.

In this market context, management focused its attention mainly on making the business secure, trying to reduce the pandemic's impact on the channel (through human resource and financial/credit management initiatives and support with customer activation during the restart phases) and plan initiatives with a medium/long-term strategic vision so as to ensure a full restart for the channel in a post-pandemic recovery scenario, which is expected to have a major impact also in the first half of 2021.

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OCS/Vending

The consumption trend in the OCS/Vending channel is closely linked to hours worked, namely people's presence in the workplace such as production sites, offices and businesses and their travel between home and work. During 2020, this parameter was severely impacted by the Covid-19 pandemic, since the remote working phenomenon significantly changed the working and commuting habits of white collar workers, whilst the production plants, on the other hand, were impacted (albeit to a lesser extent) by absenteeism and selective closures. Consumption in the channel was also affected by the pandemic's major impact on the Travel and Tourism sector, albeit to a lesser extent than the hours worked factor.

Some geographical areas were impacted heavier than others due to their social and demographical features and the emergency management policies implemented: for instance, during the first wave of the pandemic the Italian market reported an approximately -50% figure compared to the previous year, and France -65%, while, with regard to the rest of the continental Europe, the United Kingdom about -60% and Germany about -45%. The overall figure for the year has thus to be construed in light of a global market context that saw a consumption decline compared to the previous year, with a greater impact during March-April and May, and from October until the end of the year consistent with the stricter restrictive measures adopted in this period.

The Group's performance in the mature markets (Italy and France) reflected market trends with Italy impacted less in terms of channel performance than other countries due to the turnover generated in the channel also with business lines with mainly domestic/SOHO features and to its presence in sectors impacted only slightly (production plants and healthcare structures). The Group also outperformed the market, albeit still in decline, in expanding geographies, especially in Central Europe, the Middle East and Africa thanks to distribution initiatives.
Lavazza Professional in Europe, operating primarily with the Klix system in the UK, Germany and France, performed better than the market on average, given the preponderant presence in the blue-collar sectors (less impacted by the restrictions imposed to contain the pandemic).
The performance of Lavazza Professional North America was strongly impacted compared to the previous year due to its greater exposure to white-collar environments and the pandemic's major impact also in the summer and early autumn period compared to the European situation.

Significant events in the year

The Covid-19 pandemic that broke out at the beginning of the year has put under severe strain the real economy and financial markets of all the most economically developed countries. The economies of the countries affected by the pandemic crisis have reported a sharp decline in the main macroeconomic indicators, with heavy repercussions for the financial statements of companies in almost all the economic sectors.

After a brilliant start to the year for all the channels, the Group had to face the consequences of the restrictions imposed worldwide to contain the spread of the "first wave" of the virus, which resulted in a rapid deterioration in the socio-economic and financial situation at global level, with a consequent negative impact on all the markets in which the Group operates.

The channels most affected are those relating to the away-from-home consumption in the following sectors: Food Service and Ho.Re.Ca due to the closure of commercial establishments gradually imposed by the various governments, and OCS/Vending, the volumes of which are directly linked to the presence of employees in offices — a presence that in many countries dropped to zero during the second quarter to then increase slightly in the second half of the year, but without ever reaching the previous levels.

Aware that the health crisis would soon turn into a financial crisis, the Lavazza Group immediately turned to its customers in the sectors most impacted by the pandemic in order to agree with them the most effective tools and support measures to ensure business continuity.

In particular, in Italy, in the face of the sudden rise in Coronavirus (Covid-19) cases confirmed and officially communicated by the Ministry of Health and subsequent Regional and Municipal Ordinances, and in order to manage the emergency situation, as early as the end of February the Group set up a Committee for managing the Coronavirus emergency that involved various company functions.

The Committee set itself the objective of putting in place and verifying the implementation of all the measures required to safeguard the health of employees and those who for various reasons have professional relationships with the Company, in accordance with the current provisions issued by the Ministry of Health in agreement with the local authorities (Regional and Municipal Ordinances).

During the year, the Committee, in its periodic meetings, analysed the pandemic's development from time to time, promptly recorded the confirmed cases of employees who had contracted the disease and issued instructions to all the Group's employees to contain its spread.

All previously planned corporate events were cancelled and all travels were banned for all the Group's employees, who were immediately allowed to work for the whole working week on a remote working basis. Workers employed in the production plants were immediately provided with all the personal protection equipment so that they could continue working on the production activity in complete safety within a controlled and sanitised work environment.

Between the third quarter and the end of the year, employed staff started to make a gradual return to offices on all the Company's sites, which underwent further intensified cleaning and hygiene measures for surfaces and work spaces, whilst remote communication systems continued to be used to enable collaboration with customers and suppliers.

Similar actions to safeguard employees were taken in the various countries in which the Lavazza Group operates depending on developments in the Covid-19 pandemic.

The Lavazza Group has never stopped in this extremely volatile and uncertain context and has continued to invest in all its activities, giving a positive signal in the fight against the pandemic through donations to support the local communities in which the Group operates, aware of the need to work together on three priorities: people's health and safety, business continuity and future development.

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During the year, the Lavazza Group consolidated its international presence and focus on the new generations so as to enhance the brand and support future growth.

In Europe, it expanded the distribution of the Lavazza-branded ready-to-drink coffee products in Germany, France and Spain thanks to the partnership with Pepsi.

On the Asian continent, the Group consolidated its international presence, entering the Chinese market through a joint venture with Yum China, the local leader in the retailing channel, created to explore and develop the Lavazza Coffee Shop concept in the country. The first flagship store was opened in Shanghai in January 2020. To date the Group opened a further 4 stores in China.
"1895 Coffee Designers", Lavazza's new brand and new factory-museum, was launched during the year. In fact, an innovative autonomous-energy experiential industrial centre (with a zero emissions target by 2030) has been built inside the Turin production plant, where visitors can discover, in real time, how excellent espresso is created along the "Factory 1895" pathway, designed by Ralph Appelbaum Associates, which was responsible for the visual design, storytelling, immersive projections and tasting area.
The centre offers the opportunity to discover all the phases involved in producing the perfect espresso: from the arrival of the green coffee and the rigorous analysis processes based on international cataloguing that take account of as many as sixteen types of green coffee defects, to the single roasting to enhance its main aromatic note, using the best roasters available on the market that consume 30% less energy and roast only 12 to 120 kilograms of coffee per cycle.

In 2020, inauguration of the first flagship store in **China** and of **Factory 1895**

Real estate

The Covid-19 emergency essentially blocked most of the real estate projects planned for the year.

The work spaces were adapted to the new social distancing requirements and maximum attention was paid to employee health and safety with continuous sanitisation, a drastic reduction in people working in the office and widespread home working, limiting the use of meeting rooms and communal spaces and adapting restaurant spaces.
The Lavazza Museum closed its doors temporarily following various ministerial decrees, along with the events space and convention centre, which made extensive use of webinars and virtual meetings.

The Piazza Lavazza was also closed to the public for safety reasons and to avoid the risk of crowding, whilst the Bistrot restaurant was temporarily converted back to a "Company canteen" used only by Lavazza employees.

The end of the year saw the completion of the full restyling of the building that houses the Engineering offices in the Turin Plant complex, with new interior design, new technologies, new air conditioning plant and a new ventilated façade with thermal break.

Finally, the warehouse, located in Sintra, Portugal, which had not been used for some time, was sold.

Industrial investments

Industrial investments at Italian plants slightly decreased compared to the previous year, chiefly due to the review of the expenditure forecast for the compostable capsule project.

Investments were made at the Gattinara plant for the portioned products area, for the transition to compostable polymer capsules on the BLUE production lines, particularly with regard to the thermoforming, filling and sealing operations. In addition, in the Roast & Ground area, the investment on increasing the production capacity of coffee products in the 1kg whole-bean format was completed.

At the Turin plant work started on constructing a new production line for compatible capsules, whilst the Roast & Ground sector worked on increasing flexibility and production efficiency linked to the roasting process and the 1kg whole-bean packaging section, through the modernisation and rationalisation of the palletisation systems.

As in previous years, both the plants saw the continuation of the investment activity aimed at protecting the environment and increasing workplace safety.

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Financial performance of the Lavazza Group

In 2020, within a highly complex economic and social scenario which saw the global markets severely hit by the Covid-19 health emergency, the Group reached robust results, outperforming the market average both in the retail channel and in the main geographical areas.
Economic indicators showed a slight decrease in revenues, a cash generation substantially in line with 2019 and a positive net financial position.
The results confirmed the effectiveness of the business model and the strategy that have allowed the Company to grow even in a shrinking market context and that looks at the future by investing in and focusing on innovation and sustainability.

Consolidated operating, capital and financial situation of the Lavazza Group

Reclassified statement of profit or loss*

€ million	Year 2020	Ratio %	Year 2019	Ratio %	Change	% change
Net revenues	2,085.3	100.0%	2,199.7	100.0%	(114.4)	(5.2%)
Cost of sales	(1,264.9)	(60.7%)	(1,299.2)	(59.1%)	34.3	(2.6%)
GROSS PROFIT	**820.4**	**39.3%**	**900.5**	**40.9%**	**(80.1)**	**(8.9%)**
Promotional and advertising costs	(185.3)	(8.9%)	(205.0)	(9.3%)	19.7	(9.6%)
Selling costs	(177.9)	(8.5%)	(192.7)	(8.8%)	14.8	(7.7%)
General and administrative expenses	(275.9)	(13.2%)	(284.5)	(12.9%)	8.6	(3.0%)
Research and development costs	(15.0)	(0.7%)	(17.4)	(0.8%)	2.4	(13.8%)
Other operating income (expense)	(44.1)	(2.1%)	(34.8)	(1.6%)	(9.3)	26.7%
Non-recurring income (expense)	(13.6)	(0.7%)	(10.1)	(0.5%)	(3.5)	34.7%
Income (losses) for investments in JVs	(0.9)	0.0%	-	0.0%	(0.9)	0.0%
EBIT	**107.7**	**5.2%**	**156.0**	**7.1%**	**(48.3)**	**(31.0%)**
Of which amortisation and depreciation	(145.1)	(7.0%)	(134.6)	(6.1%)	(10.5)	7.8%
Of which EBITDA	**252.8**	**12.1%**	**290.6**	**13.2%**	**(37.8)**	**(13.0%)**
Financial income (expense)	(18.7)	(0.9%)	(0.3)	0.0%	(18.4)	6,133.3%
Dividends	0.1	0.0%	0.1	0.0%	-	0.0%
PROFIT BEFORE TAXES	**89.1**	**4.3%**	**155.8**	**7.1%**	**(66.7)**	**(42.8%)**
Income taxes for the year	(16.2)	(0.8%)	(28.4)	(1.3%)	12.2	(43.0%)
PROFIT FROM CONTINUING OPERATIONS	**72.9**	**3.5%**	**127.4**	**5.8%**	**(54.5)**	**(42.8%)**
PROFIT/(LOSS) FOR THE YEAR	**72.9**	**3.5%**	**127.4**	**5.8%**	**(54.5)**	**(42.8%)**
PROFIT/(LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	0.5	0.0%	0.8	0.0%	(0.3)	(37.5%)
PROFIT/(LOSS) ATTRIBUTABLE TO THE GROUP	**72.4**	**3.5%**	**126.6**	**5.8%**	**(54.2)**	**(42.8%)**

** Some figures relating to the comparison period have been reclassified in order to facilitate data comparability*

Consolidated net revenues amounted to €2.1 billion, down 5.2% from €2.2 billion for the previous year. Following a very positive performance in the first two months of the year, beginning from March sales were impacted by the effects of the pandemic; the main critical issues were observed between March and May 2020 and during the last two months of the year. The sharp decline of the Away From Home business (Food Service -40%; Office Coffee Service -30%), caused by travel restrictions, the closure of cafés and restaurants and the lower consumption at offices due to remote working, was partially offset by the rise in the retail channel, which closed 2020 with a 17.3% growth rate compared to 2019.
The downtrend of the Away From Home sector is attributable to an extraordinary and unpredictable negative situation.

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The retail channel's revenues grew by 17.3%, well above the market average in key countries and across all segments (R&G, Capsule, Beans). In particular, the Beans segment — the most dynamic one within the sector — confirmed its positive performance, with a significantly +30.1% increase, or 10 points above the reference market figure. Considering the Group's 15 key markets, the Lavazza Group positioned itself as a leader in the Beans segment, with a 15.1% share by value.
At geographical level as well, the Group reported excellent growth rates in the retail channel in Germany (+35%), the United States (+22%), the United Kingdom (+15%), Russia (+30%), Poland (+10%), whilst the key Group markets — Italy and France — rose by over 7%.

Retail channel
+17.3%

The end of 2020 saw Lavazza, as part of its Roadmap to Zero project that will lead the Group to become completely carbon neutral by 2030, achieve the important target of zeroing the direct CO2 emissions generated by all the company's activities, such as production plants, offices, flagship stores, company vehicles (scope 1), and indirect emissions generated by electricity, heat and steam purchased and consumed (scope 2).
Finally, the Lavazza Group is confirmed as one of the Top Italian Employers in 2021 as well, thanks to a process of continuous improvement with people at the centre, and the constant search for excellence in the processes and strategies linked to human resource management.

The Lavazza Group's **EBITDA** was €252.8 million, down 13% compared to €290.6 million for the previous year; EBITDA margin was 12.1% (13.2% in 2019).
Excluding the costs relating to donations made within the context of the Covid-19 health emergency (€12.5 million), EBITDA amounted to €265.3 million, down 8.7% compared to the EBITDA reported in the previous year (€290.6 million).

EBIT amounted to €107.7 million, down by 31% compared to €156.0 million for 2019, with EBIT margin of 5.2% (7.1% in 2019).
Net profit amounted to €72.9 million, down 42.8 % compared to €127.4 million for 2019.

Sales performance

Group's revenues in the retail channel (+17.3%) showed very positive growth rates across both the segments and the geographical areas. In particular, Germany rose by +33%, North America by +47%, Australia by +27%, Canada by +28.5%, the United Kingdom by +22%, Eastern Europe by +28%, and Denmark by +11%. The key markets of the Group — Italy and France — rose by over 6%.
These performances were also confirmed by market figures, which saw Lavazza grow well above the market average in key markets and across all segments — Roast&Ground, Capsule, Beans—. In particular, the Beans segment — the most dynamic one within the sector — confirmed its positive performance, with a +30.1% increase, 10 points above the reference market figure (+20.1%).
In the Group's 15 most important markets, the Lavazza Group positioned itself as a leader in said segment, with a 15.1% share by value.
In the Away From Home channels, the Group's sales decreased by approximately 33%. In particular, Lavazza Professional companies operating in Europe closed 2020 with a -22% turnover drop compared to 2019.
The Covid-19 impact, though it proved significant, was limited by the fact that their main business — Vending — was impacted to a lower extent than the office sector. Lavazza Professional North America reported instead a very negative performance (-66%) compared to 2019 due to the drastic reduction in people working in offices, a sector representing the core business of the US subsidiary.

Capital and financial situation

Reclassified statement of financial position

€ million	31.12.2020	31.12.2019	Changes
Inventories	405	369	36
Trade receivables	243	307	(64)
Trade payables	(330)	(368)	38
Other assets (liabilities)	(31)	(15)	(16)
Total net working capital	**287**	**293**	**(6)**
Property, plant and equipment	586	610	(24)
Intangible assets	1,364	1,421	(57)
Right of use	170	162	8
Non-current financial assets	27	27	-
Deferred tax assets/liabilities	19	(17)	35
Provisions	(122)	(104)	(18)
Provision for employee severance indemnities	(90)	(86)	(4)
Total net fixed assets	**1,953**	**2,014**	**(61)**
Assets held for sale	**8**	**5**	**3**
TOTAL INVESTED CAPITAL	**2,248**	**2,312**	**(64)**
Equity	**2,350**	**2,394**	**(44)**
Financial receivables and other non-current assets	(44)	(50)	6
Current financial assets	(393)	(208)	(185)
Cash and cash equivalents	(372)	(637)	265
Payables to banks and other non-current liabilities	473	620	(147)
Payables to banks and other current liabilities	234	194	40
Total net financial position	**(102)**	**(82)**	**(20)**
TOTAL FINANCING SOURCES	**2,248**	**2,312**	**(64)**

Net working capital amounted to €287 million, down €6 million compared to €293 million at 31 December 2019.
This change was attributable to the following factors:
- Higher inventories (€36 million);
- A €64 million decrease in trade receivables thanks to improved collection times and partly due to turnover decline;
- A €38 million decrease in trade payables, which were influenced by an overall activity contraction entailing in turn a decline in costs and the related payables;
- A €16 million increase in other net operating liabilities.

Net fixed assets totalled €1,953 million, compared to €2,014 million at 31 December 2019.
The negative change in **Property, plant, equipment and intangible assets** includes the effect arising from the year-end exchange rate adjustment for items in foreign currency (chiefly US and Canadian dollars) amounting to approximately €59 million, as well as the effect arising from depreciation and amortisation for the year, which exceeded net investments.

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The **Rights of Use** refer to the application of IFRS 16 as of 1 January 2019, which led to the recognition in the statement of financial position of a financial liability represented by the present value of future lease payments, offset by the recognition among assets of a right of use of the leased asset.
Provisions increased mainly due to higher provisions associated with plans for employee incentives, as well as for other future risks and charges related to corporate reorganisations and other risks associated with several issues also arising from the economic situation generated by the Covid-19 health emergency. For further details, reference should be made to the Notes to the Consolidated Financial Statements, namely to sections concerning the Covid-19 impact and changes in provisions.

Reclassified statement of cash flows

€ million	Year 2020	Year 2019
PROFIT FOR THE YEAR	73	127
Income taxes	16	28
Financial expense/(income)	7	9
Value adjustments to financial assets and liabilities	2	1
(Gains) losses from disposal of assets	-	1
Additions to provisions, employee benefits and other non-monetary components	64	51
Amortisation, depreciation and write-downs	152	145
RESULT ADJUSTED FOR NON-MONETARY COMPONENTS	314	362
Change in trade receivables	60	4
Change in inventories	(39)	(6)
Change in trade payables	(37)	(18)
Change in other receivables/payables	4	3
CASH FLOW AFTER CHANGES IN NET WORKING CAPITAL	**302**	**345**
Taxes paid	(22)	(25)
Use of provisions and indemnities paid	(43)	(29)
Interest and dividends collected, interest (paid)	(7)	(9)
CASH FLOWS FROM OPERATING ACTIVITIES	230	282
Purchase of property, plant and equipment	(90)	(134)
Purchase of intangible assets	(21)	(23)
Other disbursements for investment activities	(1)	(1)
Acquisitions	(20)	15
CASH FLOWS FROM INVESTING ACTIVITIES	**(132)**	**(143)**
Dividends paid	(51)	(36)
CASH FLOWS FROM FINANCING ACTIVITIES	**(51)**	**(36)**
Other scope and non-monetary changes	(40)	24
Exchange rate effect	13	(7)
CASH FLOWS GENERATED (USED)	**20**	**120**

Net financial position at year-start	**82**	**15**
Effect of IFRS 16 FTA at year-start	-	(53)
Net financial position at year-end	**102**	**82**

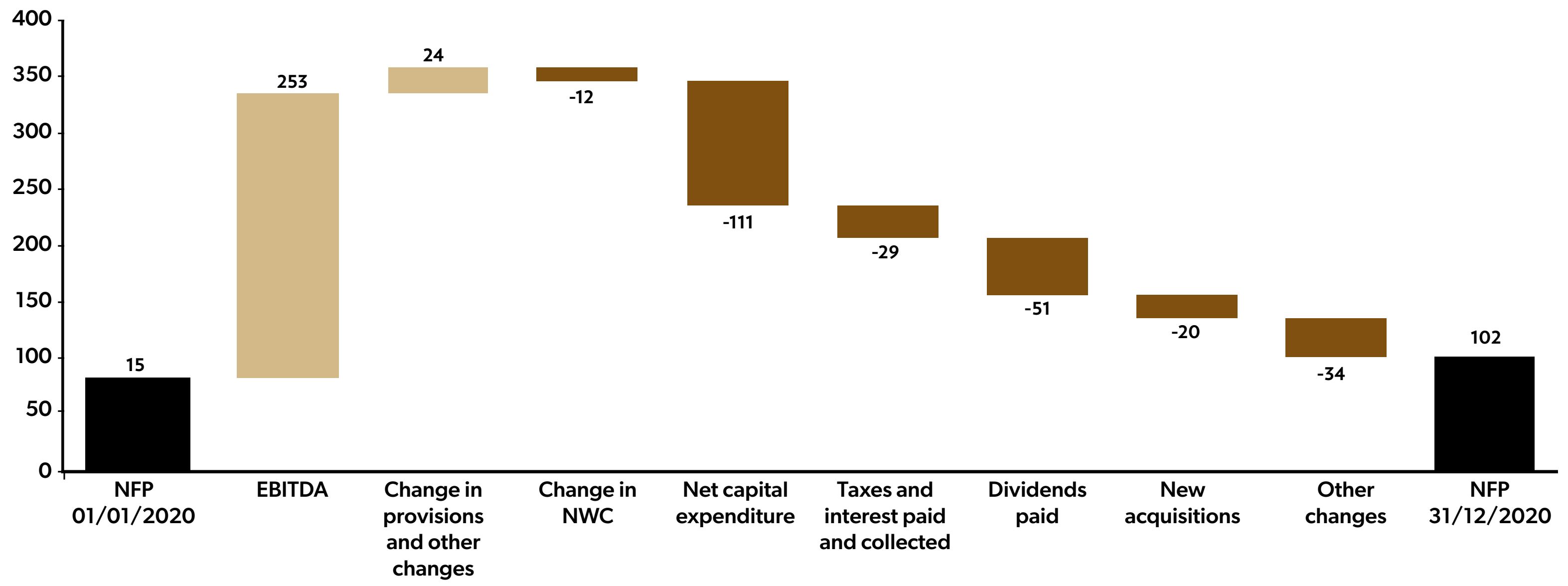
Positive
net financial position and operating cash generation in line with
2019

As highlighted in the following chart, **net financial position** was positive for €102 million (compared to 31 December 2019, when it was positive for €82 million) with a €125 million discretionary cash generation from core activities, in line with 2019, thus confirming the Group's solidity.
In particular, the positive flows generated by EBITDA for €253 million were partially offset by: (i) a negative change in net working capital for €12 million; (ii) taxes and interest expense paid of €29 million; (iii) a positive net change in provisions and other non-monetary components for €24 million.

Moreover, in the reporting year, net investments in operating activities totalled €111 million and were broken down as follows:
- Net investments in property, plant and equipment (€90 million), mainly involving plant, industrial machinery and espresso machines provided on free loan for use;
- Net investments in intangible assets (€21 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:
- The negative effect arising from the acquisitions finalised during the year for a total of €19 million: (i) acquisition of the investment in Y&L Coffee Limited for approximately €6.2 million, (ii) acquisition of the investment in Caffemotive S.r.l totalling €1.2 million; (iii) acquisition of the investment in Manufacture du Café for €0.6 million; (iv) acquisition from the company Compass Contract Services (UK) Limited of several assets (asset deal) for €1.7 million necessary in view of the implementation of the OCS/Vending sector in the UK; and (v) payment of the €10 million outstanding debt arising from the acquisition of Nims S.p.A. and withheld as security;
- Dividend payout for a total of €51 million.

The following is a reconciliation between the net financial position at 31 December 2019 and the net financial position at 31 December 2020:



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Risk Management

The Group has adopted 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.

In recent years, the Group has implemented a structured Enterprise Risk Management (ERM) process focused on managing risks that could jeopardise achievement of the Group's strategic objectives.
The ERM framework, designed in accordance with corporate governance codes and internationally recognised best practices and formalised in the ERM policy, ensures, including through active involvement of the top management, that major risks are promptly identified, assessed and monitored over time, thanks to a process of risk analysis performed on the risk exposure trend and the state of progress of mitigation measures.

In particular, in 2020 the Group integrated the standard risk management activities with additional, specific analysis of the "Covid" scenario aimed at estimating the possible evolution of the business due to the global pandemic scenario. In this connection, the main risk factors closely associated with the Covid-19 situation were identified and assessed and their short-term effects and any structural consequences for the business in the medium and long term were investigated.
The results of this process were reported to the top managers and then to the Board of Directors.

Exchange rate risk

The foreign exchange market, like all financial markets, was affected by the news and consequences of the spread of the Covid-19 pandemic as of the end of January.
The year began with a EUR/USD exchange rate of 1.12. When the epidemic began in Europe, the dollar rallied to reach a 2020 low of 1.0707 chiefly as a result of the downturn of equity markets, the risk-off environment and the lockdowns established in most countries.
FED rate cuts and containment of the health emergency in the late spring allowed the euro to appreciate sharply.
Both European and U.S. central banks immediately supported the market with expansionary monetary manoeuvres as GDP plummeted in all countries.
In July, Europe launched the Recovery Fund programme providing for the disbursement to EU countries of a series of loans, in part consisting of soft loans and in part of outright grants to support economic recovery. This, combined with the FED's statement setting aside its inflation rate target, triggered a further phase of revaluation of the euro to above 1.18.
Tensions surrounding the U.S. elections restored the dollar to around 1.15, which then regained momentum due to both Biden's victory and the generalised optimism tied to the approval of the vaccines and the launch of the related immunisation campaigns. The dollar ended the year at a high of 1.2281 on 30 December 2020.
The average annual exchange rate was 1.1422. Despite at historically low levels, volatility increased during the year (from 5.13% at the beginning of January to 6.57% in December, with a peak of 13% in March).
Lastly, at the end of 2020 the EU and the United Kingdom reached a first agreement — though quite limited — to settle the Brexit process.
As in previous years, currency needs for purchasing raw materials were met primarily through forward purchases without taking any positions that could be considered of a speculative nature.
Significant currency exposures arising from sales in countries with currencies other than the euro were monitored and hedged as part of the overall risk management. Also in this case, the Company did not take any speculative positions.

Interest rate risk

Central banks acted promptly to ensure liquidity to the financial system as of the first signs of the pandemic.
Although it did not further decrease its rates, as early as in March, the ECB expanded its asset purchase programme, increasing TLTROs III (Targeted Longer-Term Refinancing Operations) by €1.2 trillion and extending its duration, increased quantitative easing by €120 billion and launched its PEPP (Pandemic Emergency Purchase Plan) of €750 billion. At its final meeting in December 2020, the ECB increased the PEPP by an additional €500 billion.
The Federal Reserve took action, including intra-meeting action, cutting rates by 150 bps, implementing a quantitative easing programme of USD 700 billion and adopting interventions of USD 300 billion for the benefit of private and corporate credit. In addition, in March it injected short-term liquidity of USD 1.5 trillion through repurchase agreements.
Ten-year treasury yields fluctuated widely, between a high of 1.87% in January 2020 and a low of 0.50% in August, to then return to 0.91% at the end of December due to general optimism in late 2020 and prospects of a possible recovery of inflation.
The ten-year Bund performed similarly, albeit with negative yields: at the beginning of the year, it reached a high of -0.16%, followed by a low of -0.85% in March and a return to -0.57% at the end of December.
The ten-year BTP-Bund spread was impacted by the course of the pandemic, rising from 140 points at the beginning of the year to 278 in mid-March, when Italy was in the full grips of the first wave and the Bund was purchased as safe-haven asset, to then fall back to around 110 basis points at the end of December.
In the Group's case in particular, interest-rate risk primarily derives from floating-rate medium-/long-term loans. The Group contracted derivative financial instruments (interest rate swaps) with the aim of mitigating this risk by transforming them from floating-rate to fixed-rate.

Commodity price risk

The coffee market, for both the Arabica and Robusta varieties, was characterised by extreme volatility, with prices that, at least until the summer, continued the downtrend that has been in progress for several years.
From the standpoint of the environment and geopolitical setting, fundamentals were quite relaxed, whereas Arabica production drove prices down owing to the extremely high-quantity Brazilian harvest.
As has now been the case for many years, market performance continued to be driven by investment funds.
Funds' decisions to take long or short positions are based of course on fundamentals, but are also strongly guided by commodities-related macroeconomic, foreign exchange and interest rates issues to the detriment of other financial segments.
As in the past, the Groups has 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 absolutely unable to offset their effects.
Turning to a thorough price analysis, the New York exchange opened the year at 130 cents/lb (second position). It then moved between an annual low of 96 cents/lb in mid-June and an annual high of 134 cents in early September, to close the year at 130 cents/lb.
The high and relatively sustained levels of the final months of the year are to be attributed to a lack of rain in Brazil's coffee-growing areas, which led to concern for some time that the flowers would not develop properly and begin turn into fruit.
The London exchange opened the year at 1,380 USD/t and reached an annual low of 1,121 on 22 April, again for the second position; the annual high was reached on 1 September with 1,463 USD/t and the year ended at 1,386 USD/t.
In terms of production, the Brazilian harvest, in the positive cycle, was the most abundant in history with 70 million bags, of which more than 50 of Arabica; the quality, favoured by excellent climatic conditions, was perfect.

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In high production cost countries such as those of Central America, such low prices have been extremely critical. By contrast, in Brazil, chiefly thanks to the depreciation of the local currency against the dollar and large, efficiently managed plantations, growers earned a lot further increasing plant care treatments.

Columbia returned to steady production levels of approximately 14 million bags of excellent quality, sold at very high differentials, partially offsetting stock exchange values; in this country as well, depreciation helped producers.
By contrast, Central American countries, with their currencies tied to the dollar, suffered a great deal despite the large differentials.
The Vietnamese harvest reported significant figures, with over 33 million bags — almost all of which are exported —, and Indonesia was stable at around 12 million bags, with constantly increasing domestic consumption, which accounted for approximately four million bags.
With regard to the African countries where the Group makes its purchases, mention should be made of Uganda, due to its regular volumes and supply. The countries in West Africa continued to offer meagre harvests of modest quality and significant logistic difficulties.
The Covid-19 epidemic, although it has severely hit a number of coffee-growing countries, and Brazil in particular, did not cause significant difficulties in coffee harvesting and processing and in logistics.
Greater complications related to the availability of containers which, due to the subsequent closures in the various countries, were not properly positioned upon recovery of traffic, resulting in some delays in arrivals of coffee.

Credit risk

Despite the uncertainties caused by Covid-19, the Lavazza Group was able to manage critical payment issues by containing losses to the same level as in previous years and further improving the results obtained with regard to trade receivables. This was possible due to a shift in volumes into the At Home channel, typically characterised by improved payment conditions, as well as the Away From Home channel, owing to the actions implemented following the health emergency, through the activation of the standard repayment plans proposed to customers in automated mode so as to ensure prompt monitoring and payment essentially in full by the end of the year.
On international markets, the choice to hedge credit risk with without-recourse factoring solutions for insurance purposes proved even more appropriate in this year of critical situations at the global level, hence the decision to reinforce hedging by concluding an agreement with SACE – CDP Group in order to reach counterparty and country risk hedging of over 90% of the Parent Company's international sales.

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

The Lavazza Group is 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.

The support of the Group to the communities hit by the Covid-19 emergency

The serious difficulty caused by the spread of the pandemic led the Group to take prompt action to provide practical help to the local communities where it operates, working in close contact with the institutional and third-sector partners. Lavazza was among the first companies at global level to give concrete help to its communities from the very start of the health emergency.
In March, Lavazza donated €10 million to projects supporting healthcare, schools and vulnerable groups in the communities in which it operates in Italy, with a particular focus on the Piedmont Region:

- €6 million was allocated to the Piedmont Region — Coronavirus emergency support, responding to the fundraising initiative organised to buy what was necessary to support the healthcare facilities and all the front-line staff working hard to tackle the situation;
- €3 million was donated to the La Stampa – Specchio dei tempi, Foundation which immediately got involved in providing hospitals with new equipment and healthcare material, supplying free sanitising kits to Turin schools and delivering basic necessities to people in physical and economic difficulty;
- A grant of €1 million was given to 143 small- and medium-sized businesses operating mainly in the communities in which Lavazza operates in Italy, namely Gattinara and Settimo Torinese in Piedmont and Pozzilli in Molise. Between April and the beginning of July, the Lavazza team dedicated to Community Engagement worked daily with the NGOs, hospitals and associations gradually identified as beneficiaries of the fund, in order to respond as effectively as possible to the new problems created by the pandemic, which made it more complex for these bodies to operate and reach and support the most vulnerable and disadvantaged members of the population.

€10 million
donated in March 2020 in favour of the fight against Covid-19

Most donations were directed to bodies engaged in combating the economic and social crisis (distribution of meals, grants to families and people in difficulty) and supported the healthcare sector by allowing the purchase of medical equipment such as pulmonary ventilators and contributing to the opening of Covid-19 wards in the hospitals. The education sector has been supported through the donation of IT devices and help with setting up initiatives to give continuity to vocational training and counter early school leaving.
With solid Italian roots, the Group is among the leading global roasters, operating to date in over 140 countries through subsidiaries and distributors. The Group's various entities have taken action to support the local communities in the respective countries in which they operate. From Australia to France, from India to the United States, all Group companies contributed to different types of initiatives in support of the local communities hit by the pandemic. These included the free supply of coffee to healthcare personnel, donations and direct interventions such as that carried out by Lavazza Professional UK's employees. This Group company used 3D printers to produce components needed to create personal protective equipment that was then donated to the public entities.

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The Lavazza Group also wanted to support the communities impacted by the Covid-19 emergency in the coffee-producing countries as well through the work of the Lavazza Foundation, which allocated a special emergency response fund for 2020 worth more than €500,000. This initiative allowed about 100,000 beneficiaries to be reached in 14 countries through income-support, training support, health protection and food emergency response schemes.
The dialogue with third-sector organisations revealed the urgent need for action both in urban and the more remote rural areas. The Foundation worked with approximately 20 NGOs including: CESVI in the Manguinhos favela in Brazil; Fondazione Italia Uganda in the shanty town of Luzira (a suburb of Kampala); Engim Internazionale in the Medellín neighbourhood of La Sierra in Colombia; Raw Material in Rwanda in the Nyabihu district, hit by floods, as well as the pandemic; Seeds for Progress Foundation in the rural areas of Nicaragua; Oxfam in Yemen, Haiti and the Dominican Republic; Associazione Verdad y Vida in Guatemala; COSPE in Ecuador; Olam in Indonesia; Save the Children in India among the marginalised communities of the West Bengal; Soleterre Onlus in Uganda and El Salvador; Carcafè in Colombia; NINA APS among the indigenous communities in Ecuador; Fondazione Juan Cuadrado in the poorest neighbourhoods of Medellín.
Finally, the Lavazza Foundation contributed to the distribution of around 85,000 meals, 73,000 masks, 18,000 personal protective equipment, the creation of 400 gardens, 2,500 training sessions, 52 scholarships, 12 hand washing stations and support to the salaries of 6 teachers in rural areas.

Lavazza and the Global Goals

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 adopt 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 to a sustainable future. In 2020, the Lavazza Group published its Sustainability Manifesto, which sets out the strategic Sustainable Development Goals for its business until 2030.
In defining the pillars of its commitment, the Group has identified 4 goals that are a priority for it:
- Goal 5 "Gender Equality";
- Goal 8 "Decent Work and Economic Growth";
- Goal 12 "Responsible Consumption and Production";
- Goal 13 "Climate Action".

The Group also committed to identifying specific targets for each Goal to be reached through programmes and projects. The actions implemented to reach these goals are illustrated in detail in the Lavazza Group Sustainability Report "A Goal in Every Cup".

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The commitment towards a sustainable supply chain

The Company wishes to share its values with its stakeholders such as the Lavazza Group suppliers: it is becoming more and more urgent as a Group to act on the most important CSR issues, such as, for example, climate change, employment, human rights and the fight against corruption, involving those who work with the Company every day.
During the year, the Group introduced the assessment and analysis of environmental and social aspects relating to all active and strategic suppliers with the aim to strengthen the sustainable supply strategy of Lavazza. In its first year of implementation, said process involved the Institutional Relations & Sustainability, Food & Packaging Procurement, Coffee Machines Industry & Logistics Procurement and Indirect Purchasing Departments.
Moreover, in order to tackle issues particularly relevant to the Company, such as children's rights and human rights, the Group implemented several projects in partnership with traders and specialised NGOs including Save the Children and Oxfam. Further information concerning these initiatives is available in the Group's Sustainability Report.

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.
During the year, care activities in favour of local communities were strengthened to address the Covid-19 health emergency.
A project that embodies the Lavazza's community engagement programme is A.A.A. (Accoglie, Avvicina, Accompagna — Welcome, Engage and Support), in which the Company, 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 — the* Goal Zero of Lavazza — using the language of street art to get the city's walls talking about sustainability.

Environmental sustainability

In recent years, Lavazza has been engaged in creating a low-carbon economy in line with the 2030 Agenda, working on solutions to meet the need to reduce the environmental impact of the raw materials, packaging, coffee machines, transport and end of life of its products.
The adaptation and mitigation of the effects of climate change, including the actions on areas not under its direct control, such as the coffee's agricultural production phase, are of vital importance for the Group.

In its Environmental Sustainability strategy, Lavazza has set itself the ambitious target of becoming carbon neutral by 2030 along the entire value chain.
To this end, Lavazza has introduced the *Roadmap to Zero:* climate neutrality will be the result of an inter-functional process of quantifying and reducing environmental impacts, with a consequent improvement in the environmental performance of processes and products, and offsetting the residual and "non-reducible" CO_2eq emissions of products, services and processes.

"Roadmap to Zero":
the Lavazza Group to become carbon-neutral by 2030

The process started in 2020 with the offsetting of Scope 1 and Scope 2 emissions (direct emissions of greenhouse gases from its own installations resulting from the generation of electricity, heat and steam purchased and consumed) under the direct control of Lavazza Group companies; whilst as of 2021, the process will continue with the offsetting of Scope 3 indirect emissions, due to activities not under the Company's direct control, through the gradual neutralisation of specific products and brands.

Cooperating with coffee communities: the work of the Lavazza Foundation

Each year, the Company supports the projects of the no-profit Giuseppe and Pericles Lavazza Foundation, established in 2004, which continues to operate in coffee-producing countries and support cooperation projects focusing 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, involving around 100,000 people. 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 on-field initiatives.

Detailed information about the projects supported by the Foundation is available in the Group's Sustainability Report.

Photo by Steve McCurry

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The health, 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, the Company continued to implement an Integrated Health, Safety, Energy and Environment Management System (SG-SSEA), in line with the ISO 14001 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 dedicated company portal.
During the year, the corporate policy and guidelines were updated with the inclusion of the recently issued ISO 45001 standard requirements. In 2020, Luigi Lavazza S.p.A. maintained its ISO 14001:2015 environmental certification (which includes the Nuvola headquarters, the Innovation Center and the plants in Turin, Gattinara and Pozzilli) with its extension to the new Turin-based plant called "Factory 1895".
At the Lavazza Group level, the ISO 14001:2015 (Environmental Management System) certifications for Luigi Lavazza S.p.A., Lavazza Professional UK Ltd and Lavazza Professional North America LLC, and Carte Noire Operations S.a.s., and OHSAS 18001:2007 (Occupational Health and Safety Management System) certifications for Lavazza Professional UK Ltd and Carte Noire Operations S.a.s. were also renewed during the year, which also saw Lavazza Professional North America LLC obtain its first ISO 45001 (Occupational Health and Safety Management System) certification.
In supplier qualification, the first HSE requirements were implemented 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.
In occupational health and safety, no serious accidents occurred and the number of occupational accidents continued to decline as showed by the main performance indicators in terms of frequency and severity.

Research and Development

In 2020, research and development took a huge leap forward in organisational, result and investment terms.
The organisation saw an integration both in functional terms, between coffee machines, systems and food, and in geographical terms, extending the synergies with the coffee machine, food and Lavazza Professional Systems teams.
The resources are aimed at generating ever more sustainable products with a high sensory quality that offer the consumer an increasingly broad experiential spectrum.
The launch of the product range under the brand Coffee Designer 1895 by Lavazza is definitely going in the direction of high sensory quality.
Consistency with the environmental sustainability issues is assured by a continual process of sustainability integration along the entire supply chain based on a programme for innovating products — through the sustainable-by-design approach — and processes that leads to a concrete and measurable plan for reducing the Group's impacts.
The results are visible with the launches of the first ¡Tierra!-branded recyclable packaging, the first step in a comprehensive long-term programme that will lead to a 40% reduction in CO2 consumption generated by flexible packs.
Another commercial launch carried out during the year involved the KLIX systems, where the PS cups were replaced with cups having a paper content above 96% and with a benefit in terms of CO2 reduction that can reach up to 60% compared to the current situation.
Coffee machine development covered both the HCS areas (with the launch of the Lavazza-Smeg machine) and the Away From Home sector.
The OCS area saw the launch of the Elogy Milk coffee machine dedicated to Nims, a version that serves single and double espresso coffees, as well as offers the option to dispense milk-based beverages, including cappuccino with the "One Touch Cappuccino" function.
The Lavazza Professional North America's Flavia range as well saw the important launch of the Flavia 600 coffee machine also coupled with a cold add-on module, the only one on the market, able to serve cold beverages (e.g., Cold Brew).
In the Italy Food Service area, there was a mass launch of telemetry on professional coffee machines, which are monitored remotely to allow an important performance improvement in terms of in-cup quality and cost control.

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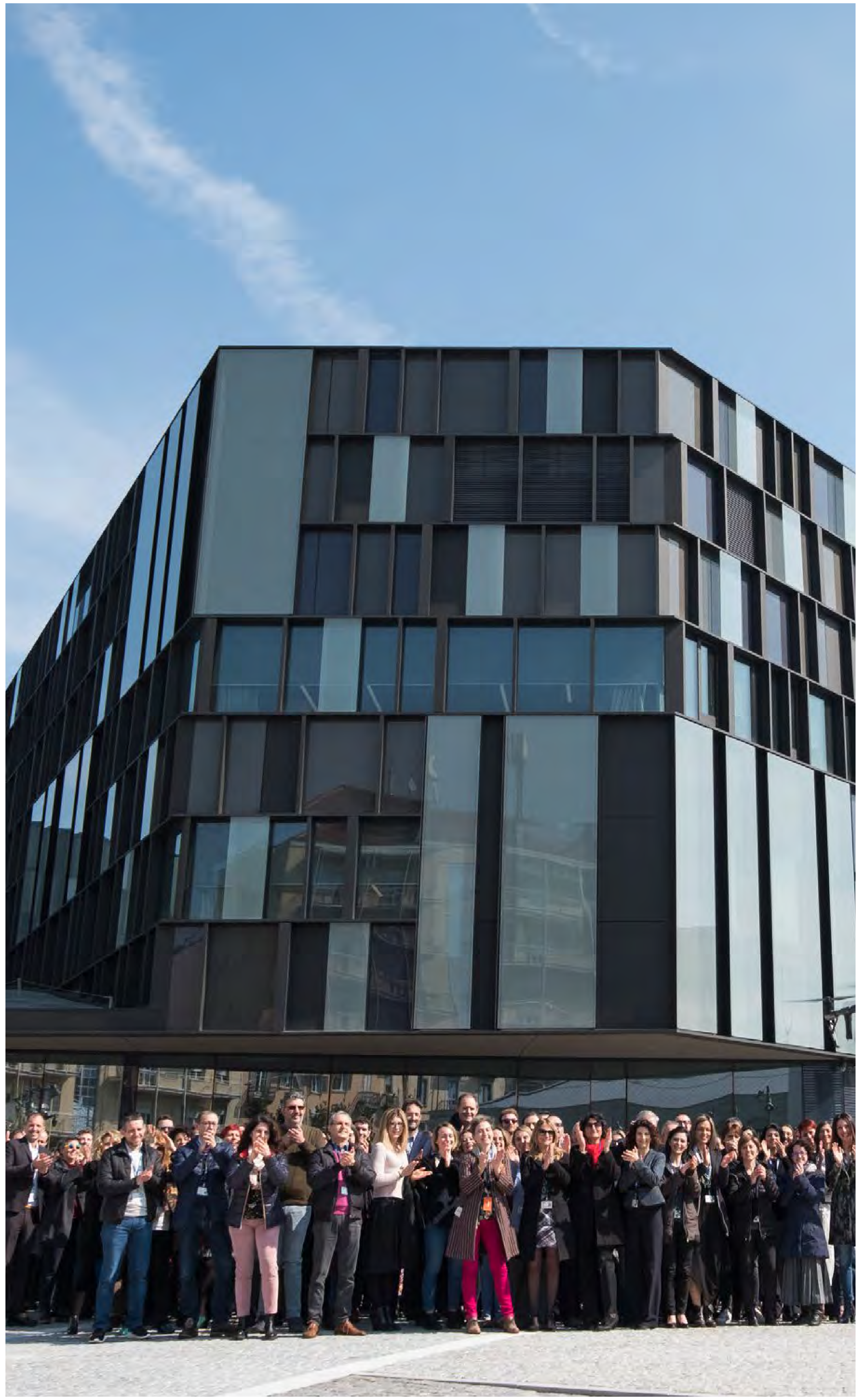
Relationship with personnel

The Group's personnel costs were slightly higher compared to the previous year (+2%).
The reporting year was marked by difficulties linked to the pandemic, but the continuity of the main HR processes (remuneration policy, performance management, training) was assured by mainly digital-mode management, accelerating the development of the related tools and digital modules, where necessary.
The personnel recruitment policies were confirmed when instrumental to supporting the priority projects for the business and to reinforce the skills of staff functions, revising the timing for placements in respect of forecasts, when applicable.
Priority was given to protecting employees' health and ensuring the Company's operations thanks to actions such as the widespread introduction of home working, the promotion of prevention, health and safety programmes and online communication and training.
These actions, combined with others such as the tight restrictions on travel and movement, helped to reduce variable labour cost items significantly (paid overtime and various allowances, greater use of holidays).
No cuts or structural reductions in the workforce were reported, even in those geographical areas particularly impacted by the Covid-19 effect such as, for example, the Away From Home consumption channels in France, the United States and the UK, where the ordinary or extraordinary tools introduced by the different legislations have been used as a priority in order to ensure cost control, while maintaining the organisation's continuity, and be ready to support market recovery.



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The Parent Company Luigi Lavazza S.p.A.

The figures of this section are illustrated in compliance with Italian GAAP (OIC).

Operating and 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 2020 compared with the previous year:

€ million

	Year 2020	Ratio %	Year 2019	Ratio %
Net revenues	1,521.0	100.0%	1,512.4	100.0%
EBITDA	189.6	12.5%	169.9	11.2%
EBIT	87.1	5.7%	68.4	4.5%
Profit before taxes	111.0	7.3%	115.3	7.6%
Profit for the year	**91.5**	**6.0%**	**106.2**	**7.0%**
Net working capital	428.8		432.0	
Net fixed assets	2,230.2		2,171.7	
Total uses	**2,659.0**		**2,603.7**	
Net financial position	378.3		416.6	
Equity	2,280.7		2,187.1	
Total sources	**2,659.0**		**2,603.7**	
Capex	56.3		88.6	
Headcount	1,741		1,701	
ROS	**5.7%**		**4.5%**	
ROI	**7.2%**		**5.8%**	
ROE	**4.3%**		**4.9%**	

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

€ million

	12.2020	Ratio %	12.2019	Ratio %	Changes	Changes %
Net revenues	1,521.0	100.0%	1,512.4	100.0%	8.6	0.6%
Other income and revenues	103.9	6.8%	98.6	6.5%	5.3	5.4%
Total income and revenues	**1,624.9**	**106.8%**	**1,611.0**	**106.5%**	**13.9**	**0.9%**
Cost of sales	724.1	47.5%	724.5	47.8%	(0.4)	(0.1%)
Costs of services	498.2	32.8%	521.1	34.5%	(22.9)	(4.4%)
Other costs	50.0	3.3%	38.3	2.5%	11.7	30.5%
Total external costs	**1,272.3**	**83.5%**	**1,283.9**	**84.8%**	**(11.6)**	**(0.9%)**
Value added	**352.6**	**23.2%**	**327.1**	**21.6%**	**25.5**	**7.8%**
Personnel costs	163.0	10.7%	157.2	10.4%	5.8	3.7%
EBITDA	**189.6**	**12.5%**	**169.9**	**11.2%**	**19.7**	**11.6%**
Amortisation, depreciation and write-downs	89.6	5.9%	85.0	5.6%	4.6	5.4%
Provisions	12.9	0.8%	16.5	1.1%	(3.6)	(21.8%)
EBIT	**87.1**	**5.7%**	**68.4**	**4.5%**	**18.7**	**27.3%**
Income (expense) from investments	30.1	2.0%	38.5	2.5%	(8.4)	(21.8%)
Financial income (expense)	(6.2)	(0.4%)	8.4	0.6%	(14.6)	(173.8%)
Profit before taxes	**111.0**	**7.3%**	**115.3**	**7.6%**	**(4.3)**	**(3.7%)**
Income taxes	(19.5)	(1.3%)	(9.1)	(0.6%)	(10.4)	114.3%
Profit for the year	**91.5**	**6.0%**	**106.2**	**7.0%**	**(14.7)**	**(13.8%)**

Net revenues amounted to €1,521.0 million, up 0.6% compared to €1,512.4 million for 2019.

EBIT amounted to €87.1 million, up €18.7 million compared to €68.4 million for 2019. EBIT margin improved going from 4.5% to 5.7%.

EBIT
+27.3%

Profit before taxes amounted to €111.0 million, down by €4.3 million compared to €115.3 million in the previous year, and was mainly impacted by the negative performance of exchange rates and the lower dividends authorised by subsidiaries.

Profit for the year amounted to €91.5 million, down €14.7 million compared to 2019.

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

€ million

		2020	2019	Changes
	Inventories	288.6	263.7	24.9
	Trade receivables	102.1	119.1	(17.0)
	Receivables from subsidiaries, associates and Parent	251.0	273.0	(22.0)
	Deferred tax assets	50.4	43.8	6.6
	Other prepayments and accrued income	37.7	48.1	(10.4)
	Property, plant and equipment held for sale	8.4	5.3	3.1
A.	**Total operating assets**	**738.2**	**753.0**	**(14.8)**
	Trade payables	204.3	249.2	(44.9)
	Payables to subsidiaries, associates and Parent	25.7	10.3	15.4
	Tax payables and payables to social security institutions	14.7	9.5	5.2
	Other liabilities and deferred income	64.7	52.0	12.7
B.	**Total operating liabilities**	**309.4**	**321.0**	**(11.6)**
C.	**Net working capital**	**428.8**	**432.0**	**(3.2)**
	Intangible assets	545.9	570.4	(24.5)
	Property, plant and equipment	375.3	313.3	62.0
	Financial assets	1,440.2	1,397.6	42.6
D.	**Total fixed assets**	**2,361.4**	**2,281.3**	**80.1**
	Provisions	118.6	95.9	22.7
	Employee termination indemnities	12.6	13.7	(1.1)
E.	**Total fixed liabilities**	**131.2**	**109.6**	**21.6**
F.	**Total net fixed assets**	**2,230.2**	**2,171.7**	**58.5**
G.	**Total invested capital, net - Uses (C + F)**	**2,659.0**	**2,603.7**	**55.3**
	Cash and cash equivalents	(179.3)	(247.3)	68.0
	Current financial assets	93.2	74.9	18.3
	Financial liabilities	464.4	589.0	(124.6)
H.	**Net financial position**	**378.3**	**416.6**	**(38.3)**
	Capital	25.0	25.0	0.0
	Reserves	677.0	616.8	60.2
	Retained earnings	1,487.2	1,439.1	48.1
	Profit for the year	91.5	106.2	(14.7)
I.	**Equity**	**2,280.7**	**2,187.1**	**93.6**
L.	**Total sources (I + H)**	**2,659.0**	**2,603.7**	**55.3**

Net working capital amounted to €428.8 million, down €3.2 million compared to €432.0 million at 31 December 2019. This change was attributable to the following factors:

- A €24.9 million increase in inventories, mainly driven by higher stock of green coffee, both by volume and by value, for approximately €17 million;
- A €39.7 million decrease in trade receivables thanks to improved collection times and partly due to the drop in turnover;
- A €11.6 million decrease in trade payables relating to an overall cost decline.

Net fixed assets totalled €2,361.4 million, compared to €2,281.30 million at 31 December 2019.

The €24.5 million decrease in **intangible assets** was the result of the combined effect of higher investments for €19.1 million, chiefly attributable to the capitalisation of costs of software for long-term use, and the decline due to amortisation for the year amounting to €43.6 million.

The €62 million net increase in **property, plant and equipment,** mainly referring to plant and machinery, was chiefly attributable to the €66.9 million revaluation since gross investments for €38.5 million were offset by the €43.4 million depreciation for the year.

It should be noted that the Company has decided to revalue its own property, plant and equipment included in the item plant and machinery in compliance with Article 110 of Decree Law No. 104 of 14 August 2020 (so-called 'August Decree'), converted into Law No. 126 of 13 October 2020 (*Italian Official Journal* No. 253 of 13 October 2020, Ordinary Supplement No. 37), in force since 14 October 2020, which allowed the revaluation of business assets, as well as equity investments held by corporations and commercial entities which do not adopt international accounting standards in the preparation of financial statements.

The values recorded in the financial statements and in inventory following the revaluation, as determined based on a special appraisal using the cost method, do not in any case exceed the values actually attributable to the assets with regard to their amount, their production capacity, the actual possibility of their economic use in the company (so-called 'economic value' or 'internal' value), as well as the current values and prices recorded on Italian or foreign regulated markets (so-called 'market value').

The Company allocated the 3% substitutive tax equal to €2,005,944 to the positive revaluation balance of €66,864,786. This will be paid in a maximum of three instalments of equal amount, the first of which by the deadline for paying the balance of income taxes due for the tax period with reference to which the revaluation is carried out.

The €42.6 million increase of **financial assets** was mainly attributable to capital injections and write-off of receivables from Lavazza Professional Holding Europe S.r.l. and Lavazza Professional Holding North America Inc. in order to support them during the crisis of the Away From Home sector, due to the Covid-19 pandemic.

Provisions increased mainly due to higher provisions for employees, as well as for other future risks and charges associated with several issues also arising from the economic situation generated by the Covid-19 health emergency.

Net financial position was negative at €378.3 million, up by €38.3 million compared to 2019. The increase mainly refers to the positive operating cash generation.

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

€ million

	Year 2020	Year 2019
Profit for the year	91.5	106.2
Amortisation and depreciation	84.2	78.6
Net change in employee termination indemnities	(1.1)	(1.0)
Net change in provisions	22.7	24.7
Write-downs of equity investments and securities included in fixed assets	3.0	3.0
Other write-downs of fixed assets	2.6	4.8
Revaluation of property, plant and equipment	(66.9)	-
Revaluation reserve	64.9	-
Net effect of merger	0.2	-
Dividends accrued to be received	(4.0)	-
Changes in items of net working capital		
- inventories	(28.0)	(12.8)
- trade receivables	17.1	19.6
- receivables from others and other assets	24.9	(1.7)
- trade payables	(45.0)	12.3
- other payables and liabilities	33.2	(17.9)
Cash flows from (used for) operating activities	**199.3**	**215.8**
Net purchases of:		
- intangible assets	(19.1)	(19.3)
- property, plant and equipment	(37.2)	(69.3)
- investments in subsidiaries, associates and other companies	(51.6)	(107.9)
- other non-current financial assets	9.6	159.3
Disposals of:		
- equity investments	-	1.0
Cash flows from (used for) investing activities	**(98.3)**	**(36.2)**
Dividends paid	(50.2)	(35.1)
Change in hedge reserve for expected cash flows	(12.5)	20.9
Cash flows from (used for) financing activities	**(62.7)**	**(14.2)**
Net cash flow for the year	**38.3**	**165.4**
Net financial assets / liabilities at year-start	**(416.6)**	**(582.0)**
Net financial assets / liabilities at year-end	**(378.3)**	**(416.6)**

Net cash flows from operating activities was positive at €199.3 million, significantly benefiting from the positive earnings component (result for the year plus non-monetary costs) of €197.1 million, in addition to the liquidity generated by the change in net working capital of €2.2 million.
The **cash flows from investing activities** have an overall negative net balance of €98.3 million, mainly composed of:

- Net purchases of intangible assets (€19.1 million), mainly attributable to the capitalisation of projects relating to software for long-term use and development costs for investments in technological innovation;
- Net purchases of property, plant and equipment (€37.2 million), chiefly related to the plant and machinery category for the construction of two new packaging lines for the BLUE pods and ground coffee packs, as well as of the plants and production lines of the new Turin-based "Factory 1895";
- Recapitalisations of investments in the subsidiaries Lavazza Professional Holding NA Inc. and Lavazza Professional Holding Europe S.r.l. (€40.7 million) owing to the need to support their investee operating companies during the Covid-19 pandemic, which caused the drop of the Away From Home consumption;
- Investment acquisitions (€2.4 million), chiefly attributable to the full acquisition of Caffemotive S.r.l.;
- Acquisition of a 35% interest in Y&L Coffee Ltd (€6.2 million), a NewCo through which Yum China Holdings and the Lavazza Group entered into a joint venture aimed at studying and developing the Lavazza Coffee Shop concept in China. The project was launched by opening the new Flagship Store Lavazza in Shanghai, the first outside Italy;
- Decrease in other financial instruments (€9.6 million).

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Parent Company's sales in Italy

At Home business

The market recorded a +9.3% compared to 2019 increase associated with the shift in consumption due to the effects of the pandemic, driven by the Single Serve segment, thus showing an opposite trend to the decline seen over the last years.
The Parent Company consolidated its market share by volume (39.8%, or a growth of +0.4 percentage points compared to 2019) and its share by value (35.2%, or -0.7 points compared to 2019).
In the Roast & Ground segment, Lavazza's share rose from 40.8% in 2019 to 41.3%.
The Parent Company's sales in the retail channel were positive both by volume (+4.5%) and by turnover (+6.3%) thanks to the contribution of the Single Serve and Roast & Ground segments.

41.3%
BY VOLUME IN THE ROAST & GROUND SEGMENT

Away From Home business

The Parent Company reported a significant reduction in the Away From Home business (-28.6%), with a more marked loss in the Food Service channel as a result of the sharp traffic decline in cafés and restaurants.
The OCS/Vending channel dropped by 17%.

Parent Company's international market sales

The positive growth trend of the Parent Company, Lavazza S.p.A., on international markets in terms of turnover (+8.8%) continued on a like-for-like consolidation basis thanks to the contribution of the At Home business (+33%), which offset the slowdown of the Away From Home business (-20%) due to the consequences of the Covid-19 pandemic.
Particularly significant growth was reported in the main Eastern European markets, namely in Poland (+43%), Bulgaria (51%), Romania (67%) and Russia (+33%) — the key market in this area in terms of turnover —, where Lavazza has acquired market leadership in the Roast & Ground and capsule segments with a 14% MAT value share as at December 2020.

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 2020.
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 2019-2021 in the Italian tax consolidation programme.
With regard to compliance with privacy legislation, the Company 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.

Organisational, Management and Control Model as per Legislative Decree No. 231 of 8 June 2001

In accordance with the provisions of Legislative Decree No. 231 of 8 June 2001 (hereunder "Decree") relating to the "Administrative liability of legal persons, companies and associations even without legal personality", since 2006 Luigi Lavazza S.p.A. has adopted and subsequently updated an Organisational, Management and Control Model (hereunder "231 Model") with the aim of ensuring ethical and transparent conduct aimed at reducing the risk of the offences provided for by the aforesaid Decree.
The task of overseeing the operation and observance of the 231 Model, and updating it, was attributed to a Supervisory Body vested with independent powers of initiative and control.
In detail, in order to ensure greater effectiveness for the controls on the efficacy of the 231 Model adopted, the Board of Directors of Luigi Lavazza S.p.A. considered it appropriate to identify a collegiate Supervisory Body, composed of three members (two internal members who are Company managers and one external member, acting as Chair), which meets the autonomy and independence, integrity, professionalism and continuity of action requirements.
The Supervisory Body is currently made up of the following members: Alessandro De Nicola (Chairman), Simona Musso (Chief Legal Officer and General Counsel) and Maurizio Virano (Chief Internal Auditor).
The Supervisory Body reports to the Board of Directors on the actual state of the 231 Model implementation and the outcomes of the supervisory activity carried out, through a written half-yearly report, also addressed to the Board of Statutory Auditors, that illustrates the monitoring activities carried out, the critical issues that emerged and any appropriate corrective and/or improvement measures for implementing the 231 Model.
The most recent update to the 231 Model was approved by the Board of Directors of the Company on 11 December 2020.

Post balance sheet events

please refer to the dedicated paragraph in the Notes to the Consolidated Financial Statements.

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Outlook

Despite the difficult historic moment the Group is experiencing, in 2020 it continued to develop its projects, as exemplified by the investments on the Chinese and American markets.
In a context that is still severely influenced by the pandemic's development, the crisis has not changed the strategy of the Group, which has continued to look to the future focusing on innovation and sustainability — concepts on which the new products to be launched on the market in 2021 are based.
Entering new markets and launching new products will enable the Group to get the best out of each of its brands, creating a perfect blend made up of the global Lavazza brand, the three "local jewels" — Carte Noire, Merrild and Kicking Horse Coffee — and its best specialists in the professional sector, namely Lavazza Professional and Nims.
The goal for the coming year is to strengthen the Group further in terms of resilience and dynamism.

The Chairman of the Board of Directors
Alberto Lavazza

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Consolidated Statement of Financial Position

€ thousand	Notes	31.12.2020	31.12.2019
Goodwill	10.1	917,899	956,845
Other intangible assets	10.2	446,268	464,217
Rights of use	10.3	169,600	162,064
Property, plant and equipment	10.4	586,002	610,018
Investments in other companies	10.5	24,134	24,232
Non-current financial assets	10.6	46,007	53,071
Deferred tax assets	10.7	78,832	61,237
Other non-current assets	10.8	4,298	4,331
Total non-current assets		**2,273,040**	**2,336,015**
Inventories	10.9	404,713	369,305
Trade receivables	10.10	243,115	306,623
Current tax receivables	10.11	4,711	13,997
Other current assets	10.8	88,297	106,155
Current financial assets	10.6	392,712	208,148
Cash and cash equivalents	10.12	371,824	637,147
Total current assets		**1,505,372**	**1,641,375**
Assets held for sale		**8,397**	**5,247**
TOTAL ASSETS		**3,786,809**	**3,982,637**
Share capital	10.13	25,000	25,000
Reserves	10.13	2,249,645	2,239,560
Profit for the year		72,346	126,608
Equity attributable to the Group		**2,346,991**	**2,391,168**
Equity attributable non-controlling interests	10.13	2,738	2,521
Profit (loss) for the year attributable to non-controlling interests		532	774
TOTAL EQUITY		**2,350,261**	**2,394,463**
Non-current financial liabilities	10.14	345,630	508,071
Right-of-use liabilities - non current	10.15	127,841	121,888
Provisions for employee benefits	10.16	89,753	86,314
Provisions for future risks and charges	10.17	94,311	78,613
Deferred tax liabilities	10.7	60,229	77,921
Other non-current liabilities	10.20	2,034	171
Total non-current liabilities		**719,798**	**872,978**
Current financial liabilities	10.14	216,230	177,996
Right-of-use liabilities - current	10.15	17,057	15,594
Trade payables	10.19	329,279	367,804
Provisions (current portion)	10.17	28,022	25,059
Current tax payables	10.18	15,273	2,207
Other current liabilities	10.20	110,889	126,536
Total current liabilities		**716,750**	**715,196**
TOTAL LIABILITIES		**3,786,809**	**3,982,637**

Consolidated Statement of Profit or Loss

€ thousand	Note	Year 2020	Year 2019
Net revenues	11.1	2,085,258	2,199,690
Cost of sales	11.2	(1,264,881)	(1,299,210)
GROSS PROFIT		**820,377**	**900,480**
Promotional and advertising costs	11.3	(185,251)	(205,025)
Selling costs	11.4	(177,945)	(192,566)
General and administrative expenses	11.5	(275,858)	(284,536)
Research and development costs	11.6	(15,041)	(17,358)
Other operating income (expense)	11.7	(44,073)	(34,839)
OPERATING PROFIT		**122,209**	**166,156**
Non-recurring income (expense)	11.7	(13,549)	(10,133)
Income (losses) for investments in JVs	11.7	(948)	-
PROFIT BEFORE THE FINANCIAL COMPONENT AND TAXES		**107,712**	**156,023**
Financial income (expense)	11.9	(18,734)	(288)
Dividends and results from investments	11.9	107	99
PROFIT BEFORE TAXES		89,085	155,834
Income taxes for the year	11.10	(16,207)	(28,452)
PROFIT (LOSS) FROM CONTINUING OPERATIONS		**72,878**	**127,382**
Profit/(loss) from discontinued operations		-	-
PROFIT (LOSS) FOR THE YEAR		**72,878**	**127,382**
PROFIT (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		**532**	**774**
PROFIT (LOSS) ATTRIBUTABLE TO THE GROUP		**72,346**	**126,608**

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Consolidated Statement of Comprehensive Income

€ thousand	Year 2020	Year 2019
PROFIT (LOSS) FOR THE YEAR	72,878	127,382
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	(49,620)	13,665
(Loss)/gain from hedging derivatives (cash flow hedge)	(11,048)	21,924
(Loss)/gain from securities	(3,774)	5,531
Other components of comprehensive income that will be subsequently reclassified to profit/(loss) for the year, net of taxes	**(64,442)**	**41,120**
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	(2,317)	(5,847)
Other components of comprehensive income that will not be subsequently reclassified to profit/(loss) for the year, net of taxes	**(2,317)**	**(5,847)**
TOTAL COMPONENTS OF OTHER COMPREHENSIVE INCOME, NET OF TAXES	**(66,759)**	**35,273**
TOTAL PROFIT/(LOSS) OF COMPREHENSIVE INCOME, NET OF TAXES	**6,119**	**162,655**
Attributable to:		
Equity holders of the Parent	5,762	161,879
Non-controlling interests	357	777

Consolidated Statement of Cash Flows

€ thousand	Year 2020	Year 2019
NET PROFIT	72,878	127,382
Income taxes	16,207	28,452
Financial expense/(income)	6,649	8,948
Value adjustments to financial assets/liabilities	1,937	770
RESULT BEFORE TAXES, INTEREST AND ADJUSTMENTS TO FINANCIAL ASSETS	**97,671**	**165,552**
(Gains) losses from disposal of assets	(316)	1,305
Additions to provisions, employee benefits and other non-monetary components	64,709	50,887
Amortisation, depreciation and write-downs	151,885	144,559
RESULT ADJUSTED FOR NON-MONETARY COMPONENTS	**313,949**	**362,303**
Change in trade receivables	59,647	4,370
Change in inventories	(38,854)	(6,198)
Change in trade payables	(37,259)	(18,189)
Change in other receivables/payables	4,174	3,269
CASH FLOWS AFTER CHANGES IN NET WORKING CAPITAL	**301,657**	**345,555**
Taxes paid	(22,046)	(25,131)
Use of provisions and indemnities paid	(42,704)	(28,923)
Interest and dividends collected, interest (paid)	(6,646)	(8,948)
CASH FLOWS FROM OPERATING ACTIVITIES	**230,261**	**282,553**
Purchases of property, plant and equipment	(90,451)	(134,119)
Purchases of intangible assets	(20,688)	(22,875)
Change in current financial assets	(179,052)	37,539
Change in non-current financial assets	6,017	(414)
Change in derivatives	(13,869)	15,965
Disposals (Acquisitions) of other equity investments	(19,933)	14,606
CASH FLOWS FROM INVESTING ACTIVITIES	**(317,976)**	**(89,298)**
New bank loans and payables	-	-
Net reimbursement of bank loans and payables	(122,424)	(95,109)
Net reimbursement of right-of-use liabilities	(16,869)	(14,100)
Dividends paid	(50,551)	(35,657)
CASH FLOWS FROM FINANCING ACTIVITIES	**(189,844)**	**(144,866)**
Changes in equity	-	-
Exchange rate effect	12,236	(6,555)
CASH FLOWS GENERATED (USED)	**(265,323)**	**41,834**
Cash and cash equivalents at year-start	**637,147**	**595,313**
Cash and cash equivalents at year-end	**371,824**	**637,147**

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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 2020	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
Profit for the year	-	-	-	-	72,346	-	-	-	-	-	72,346	532	72,878
Other components of comprehensive income	-	-	-	-	-	(11,048)	(2,317)	(3,774)	(49,444)	-	(66,583)	(176)	(66,759)
Total comprehensive profit/(loss) for the year	25,000	224	(17,733)	628,235	1,733,471	(4,827)	(7,218)	3,420	(47,017)	83,376	2,396,931	3,651	2,400,582
Option rights	-	-	-	-	-	-	-	-	-	-	-	-	-
Payment of dividends	-	-	-	-	(50,175)	-	-	-	-	-	(50,175)	(375)	(50,550)
Reclassifications - other movements	-	-	-	7,908	(7,672)	-	-	-	-	-	236	(6)	230
Balance at 31 December 2020	25,000	224	(17,733)	636,143	1,675,624	(4,827)	(7,218)	3,420	(47,017)	83,376	2,346,992	3,270	2,350,262

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	-	-	-	-	-	-	-	-	-	-	-	-	-
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

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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 2020 has been authorised by the Board of Directors on 24 March 2021.
Luigi Lavazza S.p.A. is a company limited by shares registered and domiciled in Italy. 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 2020 have been prepared on a going-concern basis.

2. Accounting standards

2.1 Principles of preparation of the Consolidated Financial Statements

The Group's Consolidated Financial Statements at 31 December 2020 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 is also meant to include all revised international accounting standards (IAS) and all the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) previously known as Standing Interpretation Committee (SIC).
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 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 has been prepared so as to represent cash flows from operating activities using the "indirect method", in accordance with IAS 7.
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;
- 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 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;
- 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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2.3 Ongoing-concern basis

The 2020 Consolidated Financial Statements have been prepared by treating the business as a going concern, inasmuch as it may reasonably be expected that the Lavazza Group will continue to operate for the foreseeable future with a time horizon of over twelve months. For further details, reference should be made to the Directors' Single Report on Operations.

3. Consolidation area and changes

The Consolidated Financial Statements include the financial statements at and for the year ended 31 December 2020 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 2020 has changed compared with the previous year as a result of the following transactions:

- Merger of Immobiliare I.N.N.E.T. S.r.l. into the parent company Luigi Lavazza effective 1 January 2020;
- Incorporation and line-by-line consolidation of Lavazza Professional UK Operating Services Limited, 100% controlled by Lavazza Professional UK Limited, on 7 January 2020;
- Acquisition of a 100% interest in Caffemotive S.r.l., consolidated using the line-by-line method as of 1 December 2020;
- Acquisition of a 35% interest in Y&L Coffee Limited, consolidated using the equity method as of June 2020; this acquisition led to the special-purpose vehicle through which Yum China Holdings and the Lavazza Group entered into a joint venture aimed at studying and developing the Lavazza Coffee Shop concept in China. The project was launched by opening the new Flagship Store Lavazza in Shanghai, the first outside Italy;
- Acquisition of a 50.01% interest in Manufacture de Café, consolidated using the equity method effective December 2020;
- Exclusion from the consolidation area of Almada Comercio de Cafè Ltda following its liquidation in November 2020.

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	-	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 Spagna 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	100	-	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	-	100	100
Lavazza Argentina SA	Buenos Aires	Ars	54,103,549	98	2	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	270,750	-	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 Ltd	Basingstoke	Gbp	34,084,001	-	100	100
Lavazza Professional UK Operating Services Limited	Basingstoke	Gbp	2,629,998	-	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
Caffemotive S.r.l.	Trieste	Eu	40,000	100	-	100
Lavazza Professional Holding Europe S.r.l.	Turin	Eu	1,000,000	100	-	100
COMPANIES CONSOLIDATED USING THE EQUITY METHOD:						
Y&L Coffee Limited	Hong Kong	USD	20,000,000	35	-	-
Manufacture de Cafè	Paris	EU	10,000	50	-	-
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	11	-	11
Clubitaly S.p.A.	Milan	Eu	103,300	4	-	4
Connect Ventures One LP	London	Gbp	n.a.	3	-	3
Casa del Commercio e del Turismo S.p.A.	Turin	Eu	114,700	3	-	3
Tamburi Investment Partners S.p.A.	Milan	Eu	76,853,716	-	0.27	0.27
Immobilière 3F (previously Le Foyer du Fonctionnaire)	Paris	Eu	46,552,000	n.a.	-	n.a.

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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 2020. Control is achieved 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 non-controlling 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:

	2020		2019	
Currency	**Average Exchange Rate**	**Year-end**	**Average Exchange Rate**	**Year-end**
Argentine Peso (*)	103.25	103.25	67.27	67.27
Australian Dollar	1.66	1.59	1.61	1.60
Brazilian Real	5.89	6.37	4.41	4.52
Canadian Dollar	1.53	1.56	1.49	1.46
Danish Krone	7.45	7.44	7.47	7.47
Pound Sterling	0.89	0.90	0.88	0.85
Indian Rupee	84.63	89.66	78.83	80.19
Japanese Yen	121.83	126.49	122.02	121.94
Swedish Krona	10.49	10.03	10.59	10.45
US Dollar	1.14	1.23	1.12	1.12

(*): 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 combination 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 and Joint Ventures

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.
A Joint Venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
The Group's investments in associates and joint ventures are measured using the equity method.
Their 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 any impairment of its equity interest as the difference between the recoverable amount and carrying amount of the said equity interest.
When the Group ceases to have a significant influence over the associate, it measures and recognises the remaining investment at fair value. The difference between the carrying value of the investment at the date significant influence or joint control cease and the fair value of the remaining investment and the consideration received is recognised through profit or loss.

Fair value measurement

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

- In the principal market for the asset or liability;

or

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

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

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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 rates are recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Patents and licences

The costs of patent rights, concession rights, licences and other intangible assets are recognised as assets 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:

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 investments in 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	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 and 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.

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 the acquisition date, to a CGU (or group of CGUs) benefiting from the acquisition.
Impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its selling price 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

At initial recognition, financial assets are classified, on a case-by-case basis, 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.

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.

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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.

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.
With regard to trade receivables and contract assets, the Group applies a simplified approach for calculating ECLs. Therefore, instead of recognising the changes in credit risk, the Group recognises a write-down provision based on ECLs outstanding at each reporting date.
The provision consists of a specific and a generic component. The specific component is determined based on the following rules:

- Bad debts: write-down of 100%;
- Past-due by more than 365 days: write-down of 100%;
- All FS clients with debts past-due by more than 180 days: write-down of 100%;
- All FS clients with mixed positions: write-down of 50% of debts past-due by more than 180 days;
- All past-due debts by more than 90 days not included in the previous categories: write-down of 25%;
- Coffee Shop miscellaneous and past-due debts: ad-hoc write-down;
- Debts as indicated by the Credit Manager: ad-hoc write-down.

The generic component that does not fall in the above-mentioned categories is determined based on trade receivables, excluding intercompany balances. With regard to these exposures, the outstanding ECL is calculated on the basis of historical data.

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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, 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 the 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.

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

Fair value hedges

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

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The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in planned 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.

Inventories

Inventories are valued at the lower of cost and 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 and demand and short-term deposits with a maturity of three months or less, which are not subject to significant risks 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. Cash and cash equivalents are recognised, depending on their nature, at nominal value or at amortised cost.

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.
The Directors' Single Report on Operations provides further information on this item.

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.

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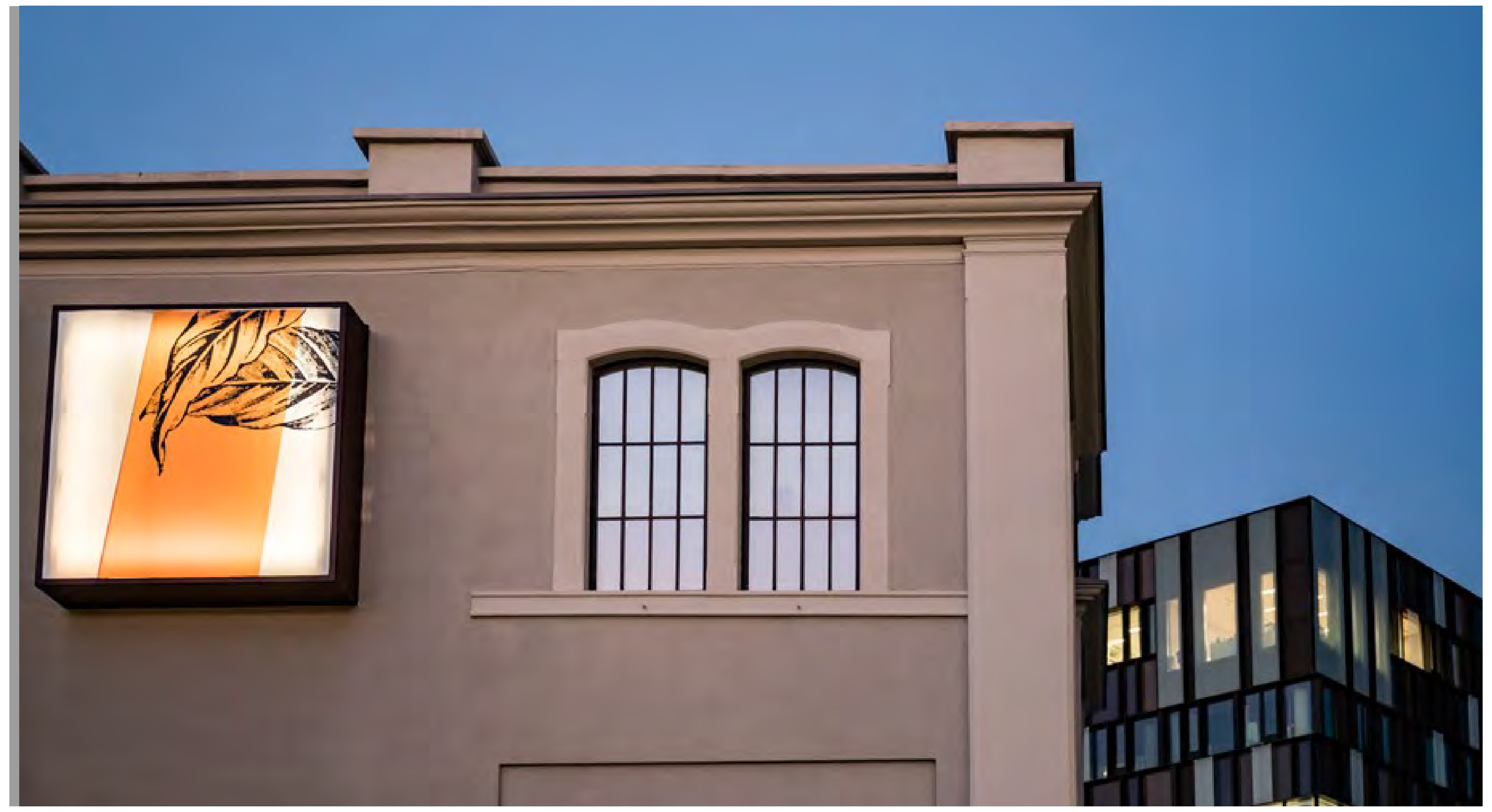

Provisions for employee benefits

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, administration expenses and selling and distribution expenses in the consolidated statement of profit or loss (by nature):

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

Revenues

Revenues are generated by the Group's ordinary operations and include revenues from sales and the provision of services. Revenues are recognised net of VAT, returns and discounts.
Revenue from contracts with customers is recognised when control of the goods and services is transferred to the customer for an amount that reflects the consideration that the Group expects to receive in exchange for such goods or services. The Group has generally concluded that it acts as Principal for the agreements that give rise to revenues, since it usually controls the goods and services before they are transferred to the customer. When determining the price of the transaction for the sale of goods, the Group considers the effects deriving from the presence of variable consideration, significant financing components and non-monetary considerations. If the consideration promised in the contract includes a variable amount, such as the amount related to a right of return, the Group estimates the amount of the consideration to which it will be entitled in exchange for the transfer of goods to the customer. The process underlying the recognition of revenues follows the phases provided for by IFRS 15.
The transfer of control 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 financial 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 on a straight-line basis 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 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.

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Income taxes

Current taxes

Current 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.
This calculation is therefore carried out using all the elements and information available at the reporting date, taking account of laws in force from time to time and also considering and including all the elements in the valuations that could give rise to uncertainties when determining the amounts payable to the taxation authorities, as provided for by IFRIC 23.
Income taxes are recognised in the Consolidated Statement of Profit or Loss, except for those relating to items debited or credited directly to an equity reserve; in these cases, the related tax effect is recognised directly in the respective equity reserves.

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;
- When the reversal of taxable temporary differences, linked to investments in subsidiaries and associates, can be controlled 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 so that 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 current tax rates, or approved tax rates, or rates that are substantively in force 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

Other accounting standards, amendments and interpretations applicable as at 1 January 2020

Amendments to IFRS 9, IAS 39 and IFRS 7 (financial instruments): Disclosures – Interest Rate Benchmark Reform

On 15 January 2020, Regulation (EU) No. 2020/34 was issued to implement, at EU level, several amendments to IFRS 9, IAS 39 - Financial Instrument: Recognition and Measurement and IFRS 7 - Financial instruments – Disclosures.
The amendments modify specific hedge accounting requirements and aim at providing relief from the effects due to the uncertainty generated by the reform of interbank offered rates (IBORs).
The amendments also require the entities to disclose to their investors further information regarding their hedging relationships that are directly exposed to said uncertainties.
The adoption of these amendments did not impact the Consolidated Financial Statements at 31 December 2020.

Amendments to References to the Conceptual Framework in IFRS Standards

On 29 November 2019, Regulation EU No. 2019/2075 was issued to implement, at EU level, the new revised version of the Conceptual Framework for Financial Reporting. The main amendments with respect to the 2010 version are:

- a new chapter on measurement;
- improved definitions and guidance, particularly with regard to the definition of liability;
- clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty.

A document updating the references to the Standards included in the aforementioned Conceptual Framework was also published.
The adoption of these amendments did not impact the Consolidated Financial Statements at 31 December 2020.

Amendments to IAS 1 and IAS 8 – Definition of Material

On 29 November 2019, Regulation (EU) No. 2019/2104 was issued to implement several amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors.
These amendments clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards themselves. The definition of 'material', as revised by the amendments, is as follows: "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."
The adoption of these amendments did not impact the Consolidated Financial Statements at 31 December 2020.

Amendments to IFRS 3 – Business Combinations

On 21 April 2020, Regulation EU No. 2020/551 was issued to implement several amendments to IFRS 3 – Business Combinations. These amendments clarify the definition of a 'business' and support entities in determining whether they acquired a business or a group of assets. According to the new definition, a 'business' is: an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities The amendments clarify that to be considered a business, an acquired set of activities and assets must include an input and a substantive process that together significantly contribute to the ability to create outputs
The adoption of these amendments did not impact the Consolidated Financial Statements at 31 December 2020.

Amendments to IFRS 16 - Leases: Covid-19-Related Rent Concessions

On 9 October 2020, Regulation (EU) No. 2020/1434 was issued to implement several amendments to IFRS 16 aimed at simplifying lessees' accounting of Covid-19-related rent concessions. The practical expedient provides lessees with an exemption from assessing whether a rent concession is a lease modification.
This practical expedient is only available for rent concessions directly related to Covid-19 and only if all the conditions provided for in the amendments are met. Lessees that apply the exemption are required to disclose that fact.
The amendments are effective for annual reporting periods beginning on or after 1 June 2020 and may be applied retrospectively Earlier application is permitted.
The adoption of these amendments had a positive effect on the Consolidated Financial Statements at 31 December 2020 amounting to €215 thousand and referring property leases.

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New accounting standards and interpretations issued by IASB 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:

	Application mandatory as of
New Standards/ Interpretations endorsed by the EU but not yet effective	
Amendments to IFRS 4 Insurance Contracts Deferral of IFRS 9	01/01/2021
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform - Phase 2	01/01/2021
New Standards / Interpretations not yet effective and not yet endorsed by the EU	
Amendments to: IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Assets, Annual Improvements to 2018-2020 Cycle	01/01/2022
Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current	01/01/2023
Amendments to IAS 1 Presentation of the Financial Statements: Disclosure of Accounting Policies	01/01/2023
Amendments to IAS 8 Accounting Standards, Changes in Accounting Estimates and Errors: Definition Accounting Estimates	01/01/2023
IFRS 17 (Insurance Contracts), including Amendments to IFRS 17	01/01/2023

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 related Notes requires management to make estimates and assumptions based also on subjective judgements, past experience and hypotheses considered reasonable and realistic in relation to the information known at the time of the estimate. Such estimates have an effect on the reported amount of assets and liabilities and the amount of revenues and costs during the reporting period.
The key assessment procedures and 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 risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are summarised below.
Due to the uncertainty associated with the unprecedented nature of the Covid-19-related situation, the Group has carefully assessed and considered the pandemic's impact on year-end data and provided, where necessary, specific disclosure to take account of its effects on the profit or loss results.
A targeted analysis was carried out to identify, and consequently manage, the main risks and uncertainties to which the Group is exposed.
In particular, all the significant assumptions and estimates underlying the preparation of the following items have been examined and analysed in detail in order to identify and manage the uncertainties linked to the unpredictability and potential impact of the pandemic: impairment of non-financial assets, fair value valuation of financial instruments, valuation of expected credit losses, deferred tax assets and tax relief, recognition of revenues, leases, provisions and onerous contracts.
The analysis conducted did not highlight any critical situations that cannot be addressed in the normal course of business.
Where the analysis has not led to particular conclusions, additional specific information is provided in the Notes to the Consolidated Financial Statements, whilst no particular explanations are provided when the effects of the Covid-19 pandemic have had no specific impact on the Group's financial performance, financial position and cash flows.

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 calculation is based on a DCF model. The estimate of future cash flows is based on plans approved by the Board of Directors having a horizon of at least five years and is founded on reasonable and sustainable assumptions, in keeping with the consistency between prospective and historic cash flows. In addition, the cash flows do not include restructuring activities to which the Group has not yet committed or significant future investments that will increase the results of the assets making up the cash-generating unit being valued. The recoverable amount is sensitive to the discount rate used for the DCF model, as well as to the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in 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 plans 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 yearly.
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 rating 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 10.16.

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 derivative and is thus 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. In the reporting year, the carrying amount of capitalised development costs was €3.1 million, whereas those capitalised in the previous year amounted to €21.8 thousand.

8. Capital management

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

9. Reconciliation between the Financial Statements of Luigi Lavazza S.p.A. and the Consolidated Financial Statements at 31 December 2020

	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 on Italian GAAP	2,280,752	91,470
IFRS / IAS adjustments Luigi Lavazza S.p.A.	71,062	24,599
Luigi Lavazza S.p.A. - based on IFRS/IAS	2,351,814	116,069
Difference between the carrying amount and the share of the book equity of investees	(116,703)	(6,891)
Elimination of dividends and results of equity investments	-	(27,057)
Difference from consolidation for acquisitions	126,059	-
Other consolidation adjustments including intercompany profit	(14,179)	(9,775)
TOTAL	**2,346,991**	**72,346**

- IFRS/IAS adjustments are mainly due to the measurement of industrial assets at fair value (deemed cost) and the write-off of depreciation and amortisation of assets with finite useful lives;
- Differences from consolidation for acquisitions mainly refer to the positive differences between the consideration paid and net assets acquired following the new acquisitions and business combinations and are chiefly recognised as goodwill in the Consolidated Financial Statements and not recognised in the Financial Statements of the individual subsidiaries.

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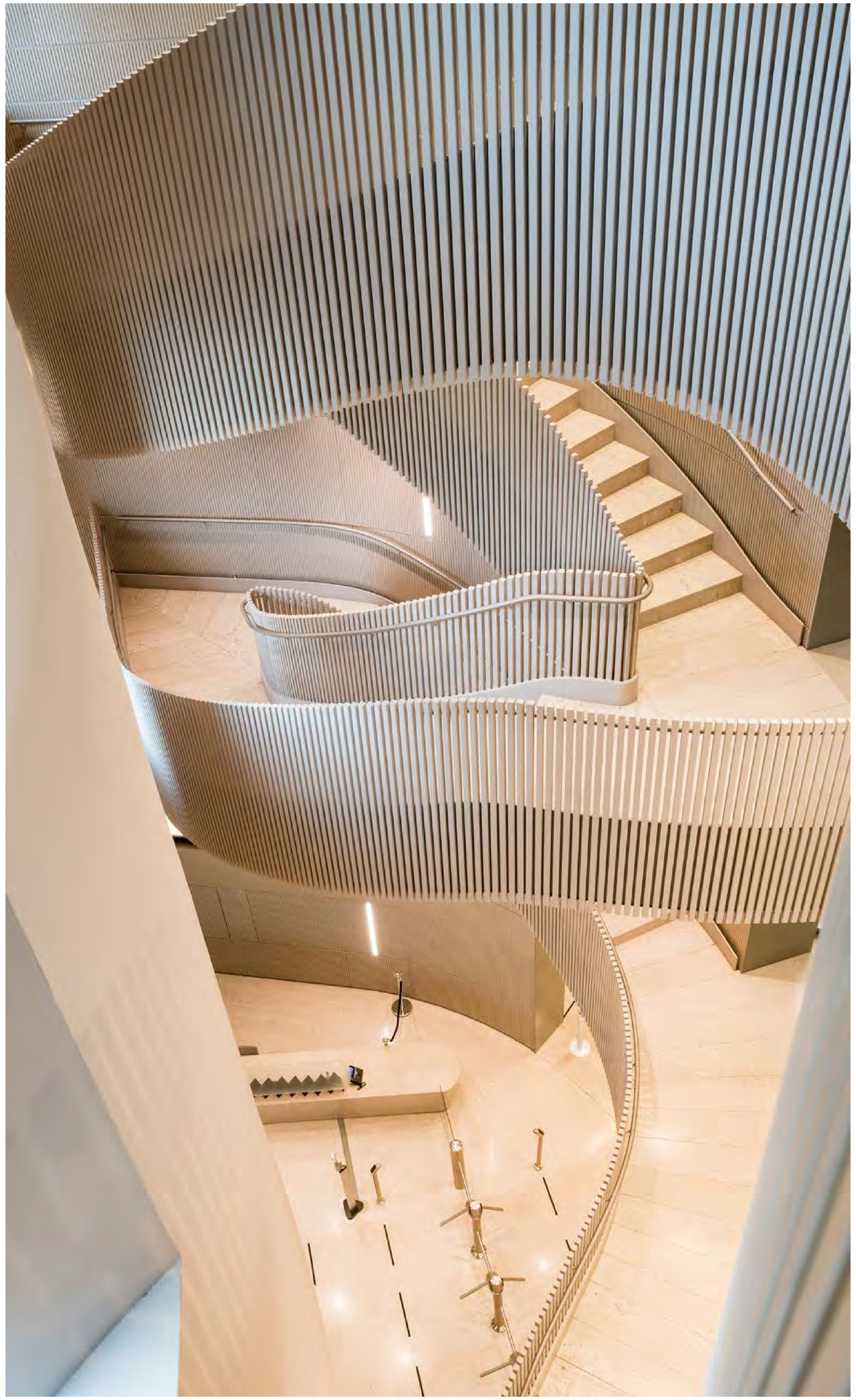

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10. Consolidated Statement of Financial Position

10.1 Goodwill

the following table shows the item "Goodwill" at 31 December 2020 and its change in the reporting year:

Balance at 31.12.2019	**956,845**
Exchange delta and other changes	(38,946)
Balance at 31.12.2020	**917,899**

The change in goodwill was chiefly attributable to the adjustment of goodwill denominated in foreign currencies (in particular US Dollar and Canadian Dollar) to the year-end exchange rates.
The following table provides the breakdown of goodwill by CGU:

	31.12.2019	Exchange rates	31.12.2020
CGU America	417,153	(33,796)	383,357
CGU France	419,557	(235)	419,322
CGU Italy	18,723	-	18,723
CGU Rest of Europe and Rest of the world	101,412	(4,915)	96,497
Total	**956,845**	**(38,946)**	**917,899**

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10.2 Other intangible assets

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

	Balance at 31.12.2019	Increases	(Decreases)	Reclassifications	Exchange delta	Consolidation area delta	Balance at 31.12.2020
Development costs							
Gross value	11,081	-	-	3,144	(10)	-	14,214
(Write-down provision)	(171)	-	-	-	-	-	(171)
(Accumulated amortisation)	(7,461)	(1,802)	-	(283)	6	-	(9,540)
Net value	**3,450**	**(1,802)**	**-**	**2,861**	**(4)**	**-**	**4,504**
Rights for industrial patents and rights for exploitation of intellectual property							
Gross value	22,446	-	-	2,484	(1,506)	2,943	26,367
(Write-down provision)	-	-	-	-	-	-	-
(Accumulated amortisation)	(3,579)	(2,811)	-	(298)	336	(104)	(6,456)
Net value	18,867	(2,811)	-	2,186	(1,170)	2,839	19,911
Concessions, licenses and similar rights							
Gross value	189,967	1,128	(7,961)	104	(493)	-	182,745
(Write-down provision)	-	-	-	-	-	-	-
(Accumulated amortisation)	(52,631)	(10,430)	7,929	(109)	228	-	(55,014)
Net value	**137,336**	**(9,303)**	**(32)**	**(5)**	**(266)**	**-**	**127,730**
Trademarks							
Gross value	517,870	-	-	(2,363)	(4,971)	8	510,544
(Write-down provision)	(311,037)	-	-	-	-	-	(311,037)
(Accumulated amortisation)	(1,799)	(1,776)	-	402	189	(3)	(2,987)
Net value	205,034	(1,776)	-	(1,962)	(4,782)	5	196,520
Total other intangible assets							
Gross value	122,604	1,767	(5,474)	14,990	(4,194)	1	129,693
(Write-down provision)	(23)	-	23	-	-	-	-
(Accumulated amortisation)	(32,159)	(14,943)	5,425	165	543	-	(40,969)
Net value	**90,422**	**(13,175)**	**(27)**	**15,155**	**(3,652)**	**-**	**88,723**
Fixed assets in process and advances							
Gross value	9,108	17,857	(7)	(18,080)	-	-	8,878
(Write-down provision)	-	-	-	-	-	-	-
Net value	**9,108**	**17,857**	**(7)**	**(18,080)**	**-**	**-**	**8,878**
Total intangible assets							
Gross value	873,077	20,752	(13,442)	278	(11,175)	2,951	872,442
(Write-down provision)	(311,230)	-	23	-	-	-	(311,207)
(Accumulated amortisation)	(97,629)	(31,762)	13,354	(123)	1,302	(107)	(114,966)
Net value	**464,217**	**(11,009)**	**(66)**	**155**	**(9,873)**	**2,844**	**446,268**

The increases in other intangible assets and fixed assets in process mainly refer to new IT Information Technology) investments made in the reporting year; the development of these investments was mainly outsourced.
The reclassifications mainly concerned fixed assets in process and also entailed some transfers between property, plant and equipment and intangible assets.
The consolidation area delta includes the recognition under industrial patents of the difference arising from the consolidation of the interest acquired in Caffemotive S.r.l., amortised over a 12-year period.

Impairment test of goodwill and intangible assets with indefinite useful lives

The goodwill and trademarks with indefinite useful lives acquired in business combinations (€917,899 thousand and €187,026 thousand, respectively) have been allocated to cash generating units for impairment-testing purposes. Four cash generating units (CGUs) have been identified for this purpose on a geographical basis: Italy, France, America, and Rest of Europe / Rest of World, in accordance with management's business governance and that also reflects CGUs' 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 explicit forecast period, the cash flows based on the projected financial performance up to 2025 were used to estimate a terminal value equal to the value of the cash flows at the end of the explicit period to reflect the value of the CGUs beyond the plan period on a going-concern basis.
The main assumptions adopted in determining the value in use are set out below for the CGUs to which the disclosure refers.

CGU	WACC	g rate
Italy	6.5%	0.5%
France	5.7%	1.1%
America	6.2%	1.8%
Rest of the world	7.2%	1.8%

The discount rate was calculated as the average cost of capital (WACC) in Euro, 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 data.

The test carried out did not identify any need for impairment with regard to the carrying amount, goodwill and other assets with indefinite life. The value of use of CGUs, calculated as described above, exceeded their carrying amount.
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). The elaboration of alternative scenarios which foresee a delay in the recovery, reflecting the current level of uncertainty about future economic prospects attributable to the Covid-19 pandemic, highlighted the presence of headroom for all the CGUs.

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10.3 Rights of use

Rights of use totalled €169,600 and refer for €169,352 to contracts for property, plant and equipment and for €248 thousand to the item right-of-use intangible assets, namely right-of-use software.
The breakdown and movements of rights of use of property, plant and equipment are shown in the following tables:

	Balance at 31.12.2019	Increases	(Decreases)	Exchange delta	Consolidation area delta	Balance at 31.12.2020
Right-of-use Land and buildings						
Gross value	52,400	12,071	(600)	(1,334)	-	62,537
(Write-down provision)	-	-	-	-	-	-
(Accumulated depreciation)	(6,302)	(6,691)	615	149	-	(12,228)
Net value	**46,098**	**5,381**	**15**	**(1,185)**	-	**50,309**
Right-of-use Leased buildings						
Gross value	115,844	-	-	-	-	115,844
(Write-down provision)	-	-	-	-	-	-
(Accumulated depreciation)	(9,008)	(3,510)	-	-	-	(12,518)
Net value	**106,836**	**(3,510)**	-	-	-	**103,325**
Right-of-use Industrial and commercial equipment						
Gross value	1,828	5,776	(264)	(13)	-	7,327
(Write-down provision)	-	-	-	-	-	-
(Accumulated depreciation)	(518)	(836)	248	7	-	(1,100)
Net value	**1,310**	**4,940**	**(16)**	**(6)**	-	**6,228**
Right-of-use Furniture and fittings						
Gross value	376	-	-	-	-	376
(Write-down provision)	-	-	-	-	-	-
(Accumulated depreciation)	(61)	(79)	-	-	-	(141)
Net value	**315**	**(79)**	-	-	-	**236**
Right-of-use Means of transport						
Gross value	11,764	8,377	(3,927)	(119)	-	16,096
(Write-down provision)	-	-	-	-	-	-
(Accumulated depreciation)	(4,462)	(5,518)	3,033	32	-	(6,915)
Net value	**7,302**	**2,860**	**(894)**	**(87)**	-	**9,181**
Right-of-use Electronic machines						
Gross value	269	6	(8)	-	-	267
(Write-down provision)	-	-	-	-	-	-
(Accumulated depreciation)	(109)	(109)	4	-	-	(215)
Net value	**160**	**(103)**	**(5)**	-	-	**52**
Right-of-use Other assets						
Gross value	8	26	(2)	(1)	-	32
(Write-down provision)	-	-	-	-	-	-
(Accumulated depreciation)	(7)	(7)	2	1	-	(11)
Net value	**1**	**19**	-	-	-	**21**
Total right-of-use Property, plant and equipment						
Gross value	182,490	26,257	(4,801)	(1,467)	-	202,480
(Write-down provision)	-	-	-	-	-	-
(Accumulated depreciation)	(20,467)	(16,751)	3,901	188	-	(33,128)
Net value	**162,023**	**9,506**	**(899)**	**(1,278)**	-	**169,352**

The increases for the period mainly refer to properties used for commercial purposes, industrial equipment and vehicles used by employees.
The decreases for the period chiefly relate to properties for which the operating lease contract expired in the year and vehicles used by employees.
Rights of use for leased buildings include the former IAS 17-compliant finance lease of the Nuvola Headquarters.
The effects associated with lease contracts falling within IFRS 16 on the statement of profit or loss are shown in the following table:

	Year 2020	Year 2019
Amortisation and depreciation	(16,872)	(15,058)
Interest	(3,710)	(3,737)
Lease costs for short-term and low value contracts	(4,902)	(5,629)

The effects on cash flows shown in the statement of cash flows indicate a net use of cash to pay for rights of use totalling €17 million for the reporting year.
It should be noted that the Group opted to apply the exemptions provided for in the Standard for lease contracts with a term equal or below 12 months and with no purchase options ("short-term leases") and for lease contracts whose underlying assets has a low value ("low value asset"). The Group also applies the practical expedient available for rent concessions granted by lessors that are directly related to the Covid-19 pandemic.

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10.4 Property, plant and equipment

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

	Balance at 31.12.2019	Increases	(Decreases)	Reclassifications	Exchange delta	Consolidation area delta	Balance at 31.12.2020
Land and buildings							
Gross value	231,930	397	(676)	(14,192)	(3,998)	-	213,461
(Write-down provision)	(11,672)	(3,046)	1,596	1,581	65	-	(11,476)
(Accumulated depreciation)	(83,467)	(5,619)	476	12,149	831	-	(75,629)
Net value	**136,791**	**(8,268)**	**1,396**	**(463)**	**(3,101)**	**-**	**126,355**
Plant and machinery							
Gross value	819,184	3,896	(11,386)	51,067	(4,490)	855	859,127
(Write-down provision)	(7,808)	(3,063)	1,892	-	125	-	(8,853)
(Accumulated depreciation)	(535,100)	(32,715)	7,347	392	1,671	(250)	(558,654)
Net value	**276,276**	**(31,882)**	**(2,147)**	**51,460**	**(2,693)**	**606**	**291,620**
Industrial and commercial equipment							
Gross value	51,867	3,101	(53)	202	(7)	-	55,110
(Write-down provision)	(3,377)	-	-	-	-	-	(3,377)
(Accumulated depreciation)	(40,393)	(3,137)	15	-	4	-	(43,511)
Net value	**8,097**	**(36)**	**(38)**	**202**	**(3)**	**-**	**8,221**
Espresso machines and other commercial equipment							
Gross value	338,604	41,707	(19,444)	49	(7,892)	343	353,368
(Write-down provision)	(3,432)	(411)	399	-	2	-	(3,442)
(Accumulated depreciation)	(210,805)	(48,579)	15,988	37	5,536	-	(237,824)
Net value	**124,367**	**(7,282)**	**(3,058)**	**86**	**(2,354)**	**343**	**112,103**
Furniture and fittings							
Gross value	40,511	1,073	(568)	1,351	(573)	3	41,797
(Write-down provision)	(113)	(7)	-	-	1	-	(120)
(Accumulated depreciation)	(27,635)	(2,604)	510	(77)	371	(2)	(29,436)
Net value	**12,762**	**(1,538)**	**(58)**	**1,274**	**(201)**	**1**	**12,241**
Means of transport							
Gross value	1,238	5	(23)	-	(9)	-	1,212
(Write-down provision)	-	-	-	-	-	-	-
(Accumulated depreciation)	(932)	(61)	19	-	7	-	(967)
Net value	**306**	**(56)**	**(4)**	**-**	**(2)**	**-**	**244**
Electronic machines							
Gross value	35,158	1,624	(1,616)	3,714	(734)	5	38,151
(Write-down provision)	-	-	-	-	-	-	-
(Accumulated depreciation)	(27,066)	(3,737)	1,524	(78)	371	(4)	(28,990)
Net value	**8,091**	**(2,113)**	**(91)**	**3,636**	**(363)**	**1**	**9,161**
Other assets							
Gross value	2,862	8	(131)	-	(219)	-	2,521
(Write-down provision)	-	-	-	-	-	-	-
(Accumulated depreciation)	(2,761)	(73)	117	6	204	-	(2,508)
Net value	**101**	**(65)**	**(14)**	**6**	**(15)**	**-**	**13**
Fixed assets in process and advances							
Gross value	44,373	42,983	(11)	(60,280)	(491)	-	26,574
(Write-down provision)	(1,148)	(200)	-	774	44	-	(530)
Net value	**43,225**	**42,784**	**(11)**	**(59,506)**	**(447)**	**-**	**26,044**
Total property, plant and equipment							
Gross value	1,565,727	94,794	(33,907)	(18,089)	(18,411)	1,206	1,591,320
(Write-down provision)	(27,550)	(6,726)	3,887	2,355	237	-	(27,798)
(Accumulated depreciation)	(928,159)	(96,524)	25,995	12,429	8,994	(255)	(977,519)
Net value	**610,018**	**(8,456)**	**(4,025)**	**(3,305)**	**(9,180)**	**951**	**586,002**

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 the start of operation of some property, plant and equipment and intangible assets referring to projects completed in the reporting year, as well as the reclassification to assets held for sale of a property located in Turin to be sold next year.
The value of this property, restated and adjusted to fair value, amounted to €3,150 thousand.

10.5 Investments

Investments recognised in the Consolidated Financial Statements at 31 December 2020 were as follows:

	% held	31.12.2020	31.12.2019	Changes
Investments measured at cost:				
a) Subsidiaries				
Lavazza Maroc S.a.r.l.	100	1	1	-
Lavazza Trading (Shenzhen) Co. Ltd	100	1,000	1,000	-
Total subsidiaries		**1,001**	**1,001**	**-**
b) Investments in Joint Ventures				
Manufacture de Café	50	625	-	625
Y&L Coffee Limited	35	4,894	-	4,894
Total investments in joint ventures		**5,519**	**-**	**5,519**
c) Associates				
International Coffee Partners G.m.b.H.	20	25	25	-
Total associates		**25**	**25**	**-**
d) Other companies				
Casa del Commercio e del Turismo S.p.A.	3	6	6	-
Air Vallée S.p.A.	2	-	26	(26)
Idroelettrica S.c.r.l.		-	-	-
Tamburi Investment Partners S.p.A.		3,445	4,774	(1,329)
Clubitaly S.p.A.		6,409	6,201	208
Connect Ventures One L.p.	3	1,335	1,284	51
Immobiliare 3 F (formerly Le Foyer du Fonctionnaire)	n.a.	-	-	-
Consorzio Nazionale Imballaggi (Conai)	n.a.	-	-	-
Companies valued at FV through profit or loss		**11,195**	**12,291**	**(1,096)**
INV. A.G. S.r.l.	11	6,394	10,915	(4,521)
Companies valued at FV through OCI		**6,394**	**10,915**	**(4,521)**
Total other companies		**17,589**	**23,206**	**(5,617)**
Total		**24,134**	**24,232**	**(98)**

In the reporting year, the Group finalised two investments that were classified as joint ventures and consolidated using the equity method:

- Y&L Coffee Limited, a 35%-owned Chinese company incorporated in the year with an initial investment of €6.2 million made by the Group and adjusted at year-end to account for the value of the portion of equity attributable to the Group (€4.9 million), recognising a loss of €0.9 million;
- Manufacture de Café, a 50.01%-owned French company, acquired at year-end for a value of €625 thousand.

During the year, 200,000 shares in Tamburi Investment Partners S.p.A. were disposed of, for a total book value of €1.4 million, generating a capital loss of €89 thousand. At the end of the year, the investment was adjusted to fair value, recognising a positive effect of €35 thousand.
The decline in the investment in INV. A.G. S.r.l. was attributable to its fair value (FV) adjustment.
The Group received no dividends from its investees.

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The breakdown of investments in other companies is reported below:

INV. A.G. (investment measured at FV through OCI)

1 January 2019	**5,383**
Sales	
Purchases	
Total profit and losses recognised through OCI	**5,532**
31 December 2019	**10,915**
Sales	
Purchases	
Total profit and losses recognised through OCI	(4,521)
31 December 2020	**6,394**

Other investments valued at FV through profit or loss

1 January 2019	**15,262**
Sales	(3,875)
Purchases	
Total profit and losses recognised through profit or loss	**904**
31 December 2019	**12,291**
Sales	(1,417)
Purchases	208
Total profit and losses recognised through profit or loss	**113**
31 December 2020	**11,195**

Notes 10.19 and 10.20 provide further information in this regard.

10.6 Non-current and current financial assets

	31.12.2020	31.12.2019	Changes
Finance lease and other minor receivables	5,273	6,774	(1,501)
Financial trade receivables	18,762	23,238	(4,476)
Write-down provision for doubtful financial trade receivables	(3,262)	(1,351)	(1,911)
Total non-current financial receivables	**20,773**	**28,661**	**(7,888)**
Mutual funds and other non-current securities	2,067	2,827	(760)
Insurance policies	18,288	18,112	176
Derivatives and other hedging instruments	4,879	3,471	1,408
Non-current securities and non-current financial instruments	**25,234**	**24,410**	**824**
TOTAL NON-CURRENT FINANCIAL ASSETS	**46,007**	**53,071**	**(7,064)**

	31.12.2020	31.12.2019	Changes
Financial receivables from others	91,187	8,231	82,956
Financial trade receivables	31,514	27,670	3,844
Write-down provision for doubtful financial trade receivables	(4,779)	(4,827)	48
Financial receivables from companies controlled by the Parent Company	70,037	70,014	23
Total current financial receivables	**187,959**	**101,088**	**86,871**
Derivatives and other hedging financial instruments	27,745	24,222	3,523
Equity securities	7,730	-	7,730
Bonds	168,709	82,814	85,895
Certificates of deposit	-	-	-
Mutual investment funds	552	-	552
Other current securities	17	24	(7)
Total current securities and current financial instruments	**204,753**	**107,060**	**97,693**
TOTAL CURRENT FINANCIAL ASSETS	**392,712**	**208,148**	**184,564**

Financial receivables

Finance lease receivables refer to the sale through finance lease contracts of some specific coffee machines to customers within 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 €1.9 million to bring it into line with its presumable realisable value.
Financial trade receivables refer to loans granted by the subsidiary Cofincaf S.p.A. to customers and are tested to verify the recoverability of their value pursuant to IFRS 9. On the basis of the analyses carried out, the value of financial trade receivables was adjusted to bring it into line with the presumable realisable value, as reported below:

	Provision for the write-down of financial trade receivables
Balance at 31.12.2019	**(6,178)**
Provisions	(2,019)
Uses	155
Reclassifications	-
Exchange rate delta	-
Balance at al 31.12.2020	**(8,041)**

The increase in the provision for write-downs was attributable to higher amounts allocated due to the increased risk of credit recoverability, partially due to the effect of the Covid-19 pandemic.

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

Description	2020		2019	
	Financial Receivables	Right-down provision for expected future losses	Financial Receivables	Right down provision for expected future losses
Not yet due	48,794	(7,785)	46,021	(4,808)
Less than 30 days	2	-	1,693	(177)
30-90 days	8	-	10	(7)
Within one year	304	(28)	594	(219)
Within five year	1,168	(228)	2,590	(967)
Over five years	-	-	-	-
Breakdown of receivables by maturity	**50,276**	**(8,041)**	**50,908**	**(6,178)**
Write-down	(8,041)	-	(6,178)	-
Total	**42,235**	-	**44,730**	-

Financial receivables from companies controlled by parent companies referred to the €70 million loan granted in 2019 by the subsidiary Lavazza Capital to Torino 1895 Investimenti S.p.A., 100% held by 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 2020 at their fair value.
Notes 10.21 and 10.22 provide further information on financial assets.

10.7 Deferred tax assets and liabilities

Deferred tax assets and liabilities amounted to €78,832 thousand and €60,229 thousand, respectively. Note 11.10 on income taxes provides further details.

10.8 Other non-current and current assets

	31.12.2020	31.12.2019	Changes
Guarantee deposits	3,099	2,943	156
Other non-current receivables	1,199	1,388	(189)
TOTAL OTHER NON-CURRENT ASSETS	**4,298**	**4,331**	**120**
Tax receivables	48,654	63,775	(15,121)
Advances to suppliers	5,447	5,493	(46)
Prepayments and accrued income	32,656	34,934	(2,278)
Other receivables	1,540	1,953	(413)
TOTAL OTHER CURRENT ASSETS	**88,297**	**106,155**	**(17,858)**

Amounts due from the treasury of €48.6 million primarily refer to VAT receivables claimed by the subsidiary Nims S.p.A. (€11 million) and VAT receivables from revenue authorities and the amount claimed by the Parent Company (€4.4 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 accrued income relating to commissions paid to agents of the subsidiary Nims S.p.A. (approximately €20 million) 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.

10.9 Inventories

	31.12.2020	31.12.2019	Changes
Raw materials, ancillaries and consumables	207,306	186,849	20,457
Write-down provision for raw materials, ancillaries and consumables	(3,281)	(2,961)	(320)
Raw materials, ancillaries and consumables	**204,025**	**183,888**	**20,137**
Work in process	2,349	2,498	(149)
Provision for work in process	(1,200)	(700)	(500)
Work in process	**1,149**	**1,798**	**(649)**
Finished products and goods	224,288	203,828	20,460
Write-down provision for finished products and goods	(25,670)	(20,814)	(4,856)
Finished products and goods (net value)	**198,618**	**183,014**	**15,604**
Advances	**921**	**605**	**316**
TOTAL	**404,713**	**369,305**	**35,408**

The inventory of raw materials increased compared to the previous year, primarily due to greater supplies of green coffee in the year combined with favourable market conditions.
Inventories of finished products increased following a quantity effect, chiefly owing to the rise in inventories of capsules (€13 million), coffee machines (€6 million) and packaged coffee for the remainder.
Inventories at 31 December 2020 were recognised net of the €25.7 million write-down provision, which accounts for obsolescence and slow turnover, primarily relating to vending systems and spare parts, advertising materials and plant spares.

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10.10 Trade receivables

The following table provides a breakdown of the Group's trade receivables at 31 December 2020 and at 31 December 2019:

	31.12.2020	31.12.2019	Changes
Trade receivables <12 months	259,313	318,884	(59,571)
Provision for write-down of receivables	(16,198)	(12,261)	(3,937)
Total trade receivables	**243,115**	**306,623**	**(63,508)**

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 2020 and 2019:

Description	2020		2019	
	Trade receivables	Write-down provision for expected future losses	Trade receivables	Write-down provision for expected future losses
Not yet due	224,131	(4,922)	278,611	-
Less than 30 days	18,461	(779)	23,328	(1,579)
30-90 days	5,907	(1,667)	8,351	(2,088)
Within one year	6,787	(4,863)	3,098	(3,098)
Within five year	4,025	(3,967)	5,496	(5,496)
Over five years	-	-	-	-
Breakdown of receivables by maturity	**259,313**	**(16,198)**	**318,884**	**(12,261)**
Write-down	(16,198)	-	(12,261)	-
Total	**243,115**	-	**306,623**	-

Trade receivables do not bear interest, have an average maturity of 30 to 90 days and are tested for recoverability of their value pursuant to IFRS 9. On the basis of the analyses carried out, the value of trade receivables was adjusted to bring it into line with the presumable realisable value, as reported below:

	Provision for write-down of receivables, current
31.12.2019	**(12,261)**
Provision for the year	(8,680)
Uses	4,514
Release to income	1
Adjustment for amounts in foreign currency	233
Change in consolidation area and other changes	(5)
31.12.2020	**(16,198)**

The provision for write-down of receivables, defined as per IFRS 9, include a provision of €8.7 million and uses amounting to €4.5 million. In calculating the write-down provision, a higher risk of credit non-recoverability due to the Covid-19 pandemic was prudentially considered, amounting to about €2.5 million.

10.11 Current tax receivables

Current tax receivables include €2.1 million tax receivables from parent companies and €2.6 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) purposes by some Group companies participating in the national tax consolidation programme.
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 2020 and 31 December 2019 were broken down as follows:

	31.12.2020	31.12.2019
Bank and post office deposits	338,855	603,656
Bank deposits in foreign currencies	32,020	33,219
Cash and valuables on hand	949	272
TOTAL CASH AND CASH EQUIVALENTS	**371,824**	**637,147**

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 €32 million, chiefly in US dollars, regarded mainly the Parent Company and were 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.

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10.13 Share capital and reserves

Share capital

Fully subscribed and paid-up share capital at 31 December 2020 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 2020 were broken down as follows:

	31.12.2020	31.12.2019	Changes
Re. Law 576/75 *	28	28	-
Re. Law 72/83 **	268	268	-
Re. Law 408/90	25,096	25,096	-
Re. Law 413/91	5,681	5,681	-
Re. Law 342/2000 ***	103,048	103,048	-
Re. Law 448/2001	5,100	5,100	-
Re. Law 350/2003 ****	93,900	93,900	-
Re. Law 266/2005	70,400	70,400	-
Re. Law 185/2008	58,200	58,200	-
Total revaluation reserves	**361,721**	**361,721**	**-**
Legal reserve	5,000	5,000	-
Extraordinary reserve	203,611	203,611	-
Merger surplus reserve	56,953	56,953	-
Reserve Re. Law 46/1982	91	91	-
Reserves Re. Law 488/1992	381	381	-
Other reserves	478	478	-
Reserve arising on exchange gains	7,908	-	7,908
Other reserves	**274,422**	**266,514**	**7,908**
TOTAL	**636,143**	**628,235**	**7,908**

* *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.

Other components of comprehensive income, net of taxes

The changes in other components of comprehensive income at 31 December 2019 and 31 December 2020 were broken down as follows:

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	-	-	13,645	-	13,645
Derivatives to hedge exchange-rate risk	(4,860)	-	-	-	(4,860)
Derivatives to hedge commodity risk	29,218	-	-	-	29,218
Interest rate swaps	(2,418)	-	-	-	(2,418)
Loss on AFS financial instruments	-	5,531	-	-	5,531
Actuarial changes on pension plans	-	-	-	(5,844)	(5,844)
Total	**21,940**	**5,531**	**13,645**	**(5,844)**	**35,272**

Changes at 31 December 2020	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	-	-	(49,444)	-	(49,444)
Derivatives to hedge exchange-rate risk	(8,983)	-	-	-	(8,983)
Derivatives to hedge commodity risk	(2,086)	-	-	-	(2,086)
Interest rate swaps	20	-	-	-	20
Loss on AFS financial instruments	-	(3,774)	-	-	(3,774)
Actuarial changes on pension plans	-	-	-	(2,316)	(2,316)
Total	**(11,049)**	**(3,774)**	**(49,444)**	**(2,316)**	**(66,583)**

Distributions made and proposed

During the year, the Parent Company distributed ordinary dividends in the amount of €50,175 thousand. Proposed dividends on ordinary shares are subject to approval by the annual Shareholders' Meeting.

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10.14 Financial liabilities - non-current and current

	31.12.2020	31.12.2019	Changes
Bank loans	309,308	463,753	(154,445)
Lease liabilities	-	-	-
Payables for options on the purchase of investments	30,633	28,619	2,014
Derivatives and other hedging instruments	5,689	5,720	(31)
Withholdings as guarantees for purchases of investments	-	9,979	(9,979)
TOTAL NON-CURRENT FINANCIAL LIABILITIES	**345,630**	**508,071**	**(162,441)**

	31.12.2020	31.12.2019	Changes
Other short-term bank payables	14,799	33,624	(18,825)
Bank loans (current portion)	180,131	135,287	44,844
Payables to other lenders	619	2,171	(1,552)
Derivatives and other hedging instruments	14,619	6,892	7,727
Other liabilities	6,062	22	6,040
TOTAL CURRENT FINANCIAL LIABILITIES	**216,230**	**177,996**	**38,234**

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. In the reporting year, accrued principal was duly repaid for a total of €125 million; therefore, the outstanding residual debt at 31 December 2020 totalled €65 million (current share);
- 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.

The outstanding loans are not subject to any covenants.
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 that in the year was adjusted to the related fair value, recognising a €2 million increase in debt compared to the previous year.

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

Description	Non-current financial liabilities	Maturity 2022	Maturity 2023	Maturity 2024	Maturity 2025	Beyond
Bank loans	309	155	154	-	-	-
Payables for options on the purchase of investments	31	31	-	-	-	-
Payables for withholding on guarantees on the purchase of investments	-	-	-	-	-	-
Payables to other lenders	-	-	-	-	-	-
Other non current financial liabilities	-	-	-	-	-	-
Total	**339**	**185**	**154**	**-**	**-**	**-**

Notes 10.21 and 10.22 provide further information on financial liabilities.

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

Non-current right-of-use liabilities amounted to €128 million, whereas current right-of-use liabilities were €17 million, of which €4 million referring to the lease agreement for the Nuvola Headquarters.
Right-of-use liabilities due after one year were broken down as follows:

Description	Non-current liabilities	Maturity 2022	Maturity 2023	Maturity 2024	Maturity 2025	Beyond
Lease liabilities for the Nuvola HQ	72	4	5	5	5	53
Other right-of-use liabilities	55	11	8	6	5	25
Other	1	-	-	-	-	1
Total	**128**	**15**	**13**	**11**	**10**	**78**

10.16 Provisions for employee benefits

	Severance indemnities	Provisions for pensions and similar obligations	Total provisions for employee benefits
Balance at 31.12.2019	**25,099**	**61,215**	**86,314**
Increases	2,431	3,807	6,238
Uses	(1,959)	(831)	(2,790)
Other	-	-	-
Exchange rate delta	(21)	-	(21)
Changes in consolidation area	12	-	12
Balance at 31.12.2020	**25,562**	**64,191**	**89,753**

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 to 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 table presents 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 2020 in connection with employee termination indemnities and similar items:

Liabilities (assets) at 1 January 2020	**25,099**
Amounts included in the statement of profit or loss:	-
Current service costs	531
Net interest	18
Other services	-
Total	**549**
Amounts included in the statement of comprehensive income:	-
Profit (losses) from changes in actuarial assumptions	1,460
Total	**1,460**
Other movements:	
Benefits paid	(1,463)
Benefits transferred	-
Curtailment	-
Exchange-rate delta and change in consolidation scope	(83)
Total	**(1,546)**
Liabilities (assets) at 31 December 2020	**25,562**

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

TFR Recruitment	**2020**
Discount rate	AA Euro Composite curve at 31 December 2020
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 2020.

Description	**Change investigated**	**Impact of increase**	**Impact of decrease**
Discount rate	25,562	25,545	25,198
Personnel turnover rate	25,562	25,189	26,147
Expected inflation rate	25,562	25,966	25,162

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

Expected future payments	**2020**
Within 12 months	1,407
From 1 to 4 years	3,409
Beyond 4 years	26,554
Total	**31,370**

The expected cash flows for future payments under the plan are not such as to have a material 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	**2020**
Interest rate	1.00%
Salary growth rate	3.25%
Expected inflation rate	1.80%
Expected mortality rate	RT 2018G

Assumptions for pensions and similar obligations	**Change investigated**	**Impact of increase**	**Impact of decrease**
Interest rate	59,720	54,191	66,103
Salary growth rate	59,720	60,321	59,149
Expected inflation rate	59,720	61,875	57,679
Expected mortality rate	59,720	62,203	57,261

10.17 Provisions — non-current and current

The following table provides information on the movements of provisions at 31 December 2020:

	31.12.2019	**Provisions**	**Uses**	**Reclassification**	**Exchange rate delta**	**Change in consolidation area**	**31.12.2020**
Provision for litigations	27,037	5,406	(8,706)	(9,000)	(101)	-	14,636
Provision for agents' customer compensation	4,261	773	(1,761)	-	(47)	-	3,226
Provision for product warranty	6,217	-	(136)	-	(22)	-	6,059
Other provisions - liabilities	41,097	31,434	(10,889)	9,000	(252)	-	70,390
Provisions for future risks and charges (non-current)	**78,612**	**37,613**	**(21,492)**	**-**	**(422)**	**-**	**94,311**
Provisions for bonuses and employee benefits to be paid	20,890	18,125	(20,086)	-	(107)	-	18,822
Other provisions	4,169	6,288	(1,377)	-	(80)	200	9,200
Provisions (current)	**25,059**	**24,413**	**(21,463)**	**-**	**(187)**	**200**	**28,022**

The provision for litigation also refers to labour law disputes and was recognised to account also 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 reclassification made in the year amounting to €9,000,000 to the benefit of other provisions for future risks and charges is the result of transforming the litigation risk linked to the change in the model for distributing the Company's products on national and international markets, to the a risk related to the new business model adopted. At year-end, this provision was adjusted based on the estimated risk through the release of €2,800,000.
In addition to the aforesaid reclassification, the other risk provisions for future charges (non-current) increased during the year by a total of €31.4 million, and uses in the year amounted to €10.9 million. The main provisions for the year related to: (i) risks linked to the recoverability of investments made in the away-from-home coffee consumption channel and particularly in the Ho.Re.Ca. channel, severely impacted by the restrictive measures imposed by government authorities in order to combat the Covid-19 pandemic which forced the closure of businesses for a large part of the reporting year (€6 million); (ii) future charges deriving from contractual commitments for coffee machine purchases by Lavazza Professional North America LPCC (€1.5 million); the provision for employee bonuses and benefits to be paid beyond one year, adjusted by €21 million at the end of year.

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

10.18 Current tax payables

Current tax payables amounted to €15.3 million and include tax payables to parent companies of €10.2 million and other tax payables amounting to €5.1 million.
Payables to the parent companies refer to the receivables claimed from the parent company, Finlav S.p.A., for IRES (corporate income tax) purposes by Group companies participating in the national tax consolidation programme.

10.19 Trade payables

The item amounted to €329.3 million and primarily referred to payables for the supply of raw materials and services due within one year.

10.20 Other non-current and current liabilities

	31.12.2020	31.12.2019	Changes
OTHER NON-CURRENT LIABILITIES	**2,034**	**171**	**1,863**
VAT payables	24,525	35,673	(11,148)
Withholdings to be paid as withholding agents	4,613	4,867	(254)
Other miscellaneous tax payables <12	5,044	4,202	842
Total other current tax payables	**34,182**	**44,742**	**(10,560)**
Advances	25,635	28,428	(2,793)
Payables to social security institutions <12	12,408	12,668	(260)
Payables to personnel	26,835	28,646	(1,811)
Payables to shareholders and bondholders	589	671	(82)
Other payables to third parties	2,007	1,156	851
Total other current payables	**67,474**	**71,569**	**(4,095)**
14th month salary and holiday leave	3,738	3,747	(9)
Other operating accrued expenses	(3)	(43)	40
Total accruals	**3,735**	**3,704**	**31**
Deferred lease liabilities	341	501	(160)
Other deferred income	5,157	6,020	(863)
Total deferred income	**5,498**	**6,521**	**(1,023)**
OTHER CURRENT LIABILITIES	**110,889**	**126,536**	**(15,647)**

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.

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 2020 and 31 December 2019, revised according to the classification rules set out in IFRS 7 – *Financial Instruments: Disclosure*, are presented below.

	Measurement at amortised cost		Measurement at FV through profit or loss		Measurement at FV through OCI	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Operating assets						
Cash and cash equivalents	371,824	637,147	-	-	-	-
Trade receivables	243,115	306,623	-	-	-	-
Other current assets (excluding tax receivables)	39,643	42,380	-	-	-	-
Other non-current assets (excluding tax receivables)	4,298	4,331	-	-	-	-
Non-current financial assets						
Financial receivables	20,773	28,661	-	-	-	-
Mutual funds	-	-	2,067	2,827	-	-
Insurance policies	-	-	18,288	18,112	-	-
Derivatives and other hedging instruments	-	-	-	-	4,879	3,471
Current financial assets						
Financial receivables	187,959	101,088	-	-	-	-
Derivatives and other hedging financial instruments	-	-	-	-	27,745	24,222
Equity securities	-	-	7,730	-	-	-
Bonds	-	-	168,709	82,814	-	-
Certificates of deposit	-	-	-	-	-	-
Mutual investment funds	-	-	552	-	-	-
Other current securities	-	-	17	24	-	-
Investments in other companies	-	-	11,195	12,291	6,394	10,915
Operating liabilities						
Trade payables	329,279	367,804	-	-	-	-
Other current liabilities (excluding tax liabilities)	76,707	81,794	-	-	-	-
Other non-current liabilities (excluding tax liabilities)	2,034	171	-	-	-	-
Non-current financial liabilities						
Bank loans	309,308	463,753	-	-	-	-
Finance lease liabilities	-	-	-	-	-	-
Right-of-use liabilities - non current	127,841	121,888	-	-	-	-
Payables for options on the purchase of investments	-	-	30,633	28,619	-	-
Derivatives and other hedging instruments	-	-	-	-	5,689	5,720
Withholdings as guarantees for purchases of investments	-	-	-	-	-	-
Current financial liabilities						
Other short-term bank payables	14,799	33,624	-	-	-	-
Bank loans (current portion)	180,131	135,287	-	-	-	-
Right-of-use liabilities - current	17,057	-	-	-	-	-
Payables to other lenders	619	2,171	-	-	-	-
Derivatives and other hedging instruments	-	-	-	-	14,619	6,892
Other liabilities	6,062	22	-	-	-	-

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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 *fair value* of derivatives outstanding at 31 December 2020 with a duration in excess of 12 months, contracted in order to hedge against foreign exchange and commodities risk.

The following table summarises the related amounts (€ thousand):

Description	2020		2019	
	Notional value	Fair value	Notional value	Fair value
Commodities - Purchase of green coffee	23	23	14,294	2,550
Exchange rates - Sales	65,751	4,856	81,289	921
Total	**65,773**	**4,879**	**95,583**	**3,471**

Current financial derivative assets

The item includes the positive fair value of outstanding derivatives at 31 December 2020 with a duration of less than 12 months, contracted in order to hedge against foreign exchange and commodities risk.

The following table summarises the related amounts for the reporting year (€ thousand):

Description	2020		2019	
	Notional value	Fair value	Notional value	Fair value
Commodities - Purchase of green coffee	91,555	14,391	123,155	23,634
Exchange rates - Sales	133,650	906	54,054	588
Exchange rates - Other financial assets	115,076	12,448	-	-
Total	**340,281**	**27,745**	**177,209**	**24,222**

Financial derivative liabilities

The item includes the negative fair values of the derivative instruments outstanding at 31 December 2020. 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 Group also had recourse to financial derivatives (interest rate swaps) to transform from variable to fixed the rate on the corporate loan, commented upon in the section regarding amounts due to banks, to hedge against the risk of fluctuation in the relevant interest rates.

The following tables summarise the related amounts (€ thousand):

Non-current derivative liabilities

Description	2020		2019	
	Notional value	Fair value	Notional value	Fair value
Exchange rates - Sales	25,444	194	3,002	13
Interest rates - Loans	465,000	5,495	590,000	5,707
Total	**490,444**	**5,689**	**593,002**	**5,720**

Current derivative liabilities

Description	2020		2019	
	Notional value	Fair value	Notional value	Fair value
Commodities - Purchases of green coffee	9,495	86	53,952	5,130
Exchange rates - Sales	385,997	14,533	171,768	1,762
Total	**395,492**	**14,619**	**225,720**	**6,892**

10.22 Fair value measurement

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

	2020			2019		
	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs
	(Level 1)	(Level 2)	(Level 3)	(Level 1)	(Level 2)	(Level 3)
Investments in other companies	6,394	11,195	-	10,915	12,291	-
Mutual funds	2,619	-	-	2,827	-	-
Insurance policies	-	18,288	-	-	18,112	-
Equity securities	7730	-	-	-	-	-
Bonds	168,709	-	-	82,814	-	-
Certificates of deposit	-	-	-	-	-	-
Other current securities	-	17	-	-	24	-
Derivative assets	6,006	26,618	-	-	27,693	-
Payables for options on the purchase of investments	-	-	30,633	-	-	28,619
Derivative liabilities	-	20,308		-	12,612	-

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

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10.23 Government grants

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:

Operational grants

Description	Amount received (€)
R&D bonus	1,026
Grants for investments in photovoltaic systems or other energy production systems with low environmental impact	205
Grants for other investments in environmental sustainability	70
Grants in support of social activities	50
Government grants to promote internationalization and export	-
Grants for training programme and activities	75
Other	877
Total	**2,303**

Capital grants

Description	Amount received (€)
Grants for the acquisition of new plant and machinery	418
Grants and incentives to support expenses and investments in specific geographical areas	69
R&D bonus	337
Total	**824**

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 €24,585 thousand, mainly received by the subsidiary Nims S.p.A.

11. Consolidated Statement of Profit or Loss

Effects of Covid-19

The data and results presented in these Notes to the Financial Statements have been significantly impacted by the effects of the pandemic event that marked the year. As well as reflecting the effects of a commercial trend affected by the repercussions of the pandemic event on all the Group's operating markets, the results for the year include a number of non-recurring Covid-19-related elements, which are summarised organically below:

	Year 2020
Cost of sales	(3,293)
Selling costs	402
General and administrative expenses	(454)
Other (expense) income	(7,053)
Financial income and expense	(621)
One-off charges	(12,471)
Total	**(23,490)**

- The cost of sales mainly includes the costs of sanitisation and purchase of personal protective equipment for the production plants and a risk provision of €1.5 million for Lavazza Professional North America for future charges resulting from contractual commitments for coffee machine purchases. It also includes the benefit deriving from the use of social redundancy measures for about €300 thousand;
- Selling costs include a higher provision to the item write-down of receivables amounting to €2.5 million, offset by labour cost revenues from the use of social redundancy measures for €2.9 million;
- General and administrative expenses mainly include the costs of sanitisation and purchase of personal protective equipment for the Parent Company's headquarters and the subsidiaries' administrative offices;
- Other expense and income include a provision amounting to €6 million in respect of the assessment of the recoverability of the investments made in the Away From Home coffee consumption channel and particularly the Ho.Re.Ca. channel, severely impacted by the restrictive measures to fight the Covid-19 pandemic. A total of €215 thousand of the remaining balance refers to the release of right-of-use liabilities following post-lockdown negotiations on the Parent Company's property leases, in application of the practical expedient allowed by the changes to IFRS 16 – *Leases* for Covid-19-related rent concessions and other costs incurred for sanitisation and the purchase of personal protective equipment;
- The financial income and expense item includes the write-down of financial receivables of the subsidiary Cofincaf resulting from a greater recoverability risk for receivables from OCS and Vending customers;
- Other one-off charges refer to donations made to support the health emergency in the form of projects supporting the healthcare system, schools and vulnerable groups.

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11.1 Revenue from contracts with customers

This item is broken down as follows:

	Year 2020	Year 2019	Change
Net revenues from the sale of goods	2,037,820	2,153,491	(115,671)
Net revenues from the sale of services	47,438	46,199	1,239
TOTAL	2,085,258	2,199,690	(114,432)

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

Geographical area	Year 2020	Ratio %	Year 2019	Ratio %	Change	% change
Italy	630,195	30.2%	667,849	30.4%	(37,654)	(5.6%)
Other EU countries	1,046,096	50.2%	1,034,392	47.0%	11,704	1.1%
Non-EU countries	408,967	19.6%	497,449	22.6%	(88,483)	(17.8%)
Total	2,085,258	100.0%	2,199,690	100.0%	(114,432)	(5.2%)

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 2020	Year 2019	Change
Lease of coffee machines provided on free loan for use	38,360	35,260	3,100
Other services	4,107	6,147	(2,040)
Other rentals	4,971	4,792	179
TOTAL	47,438	46,199	1,239

11.2 Cost of sales

This item includes the following costs:

	Year 2020	Year 2019	Change
Material and production costs	(1,132,495)	(1,159,238)	26,743
Logistic and distribution costs	(88,198)	(93,752)	5,554
Fees and commissions on sales	(44,188)	(46,220)	2,032
TOTAL	(1,264,881)	(1,299,210)	34,329

The change compared to the previous year was primarily due to the decline in sales. The ratio to total sales remained essentially unchanged (60% in 2020 compared to 59% in 2019).

The following table provides a breakdown of costs by nature:

	Year 2020	Year 2019	Change
Purchase of raw materials and third-party products	(919,583)	(925,902)	6,319
Change in inventories	37,927	17,162	20,765
Costs for services	(236,021)	(235,499)	(522)
Costs for use of third-party assets	(2,056)	(2,148)	92
Personnel costs	(54,637)	(55,261)	624
Amortisation, depreciation and write-downs	(87,413)	(85,320)	(2,093)
Provisions for risks	(3,098)	(12,242)	9,144
TOTAL	(1,264,881)	(1,299,210)	34,329

11.3 Promotional and advertising costs

This item includes the following costs:

	Year 2020	Year 2019	Change
Advertising costs	(93,593)	(98,884)	5,291
Promotional costs	(52,488)	(57,116)	4,628
Marketing costs	(39,170)	(49,025)	9,855
TOTAL	(185,251)	(205,025)	19,774

Promotional and advertising costs declined by approximately €20 million, of which €10 million referring to the decrease in marketing costs.
The following table provides a breakdown by nature:

	Year 2020	Year 2019	Change
Purchase of third-party products	(818)	(3,454)	2,636
Change in inventories	(5,783)	(6,279)	496
Costs for services	(176,430)	(194,132)	17,702
Costs for use of third-party assets	(97)	(68)	(29)
Personnel costs	(12)	20	(32)
Amortisation and depreciation	(1,065)	(1,079)	14
Other costs	(1,046)	(33)	(1,013)
TOTAL	(185,251)	(205,025)	19,774

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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 2020	Year 2019	Change
Purchase of third-party products	(4,061)	(4,026)	(35)
Change in inventories	(1,318)	(1,294)	(24)
Costs for services and other costs	(35,629)	(53,651)	18,022
Costs for use of third-party assets	(3,112)	(4,116)	1,004
Personnel costs	(119,503)	(119,772)	269
Write-down of receivables	(8,611)	(5,446)	(3,165)
Amortisation and depreciation	(5,271)	(3,369)	(1,902)
Provisions for risks	(440)	(892)	452
TOTAL	(177,945)	(192,566)	14,621

Selling costs decreased by €14,621, mainly as a result of lower costs for services and a higher provision to the item write-down of receivables compared to the previous year.

11.5 General and administrative expenses

	Year 2020	Year 2019	Change
Personnel costs	(161,642)	(159,951)	(1,691)
Costs for services	(36,966)	(45,751)	8,785
Advisory services	(27,610)	(32,502)	4,892
Costs for use of third-party assets	(9,206)	(7,284)	(1,922)
Amortisation and depreciation	(30,339)	(28,202)	(2,137)
Other costs	(6,313)	(7,188)	875
Remuneration to Directors and Statutory Auditors	(2,469)	(2,300)	(169)
Purchase of third-party products	(705)	(550)	(155)
Change in inventories	(608)	(808)	200
TOTAL	(275,858)	(284,536)	8,678

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 declined by €9 million, mainly due to lower costs for services and advisory services, partially offset by the increase in personnel costs, the value of amortisation and depreciation and the costs for use of third-party assets.

11.6 Research and development costs

	Year 2020	Year 2019	Change
Costs for services, net of grants received	(11,715)	(13,780)	2,065
Purchase of materials	(447)	(445)	(2)
Change in inventories	(709)	(877)	168
Other costs	(120)	(113)	(7)
Amortisation and depreciation	(2,050)	(2,143)	93
TOTAL	(15,041)	(17,358)	2,317

Research and development costs amounted to €15 million, decreasing by €2.3 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.

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

11.7.1 Other operating (expense) income

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

	Year 2020	Year 2019	Change
Royalties	1,319	2,205	(886)
Insurance reimbursements	299	696	(397)
Capital gains (losses)	(1,210)	(1,238)	28
Socially beneficial and charitable expense	(4,757)	(5,033)	276
Amortisation and depreciation	(19,413)	(18,106)	(1,307)
Provisions	(15,725)	(6,747)	(8,978)
Impairment of property, plant and equipment	(6,146)	(5,782)	(364)
Personnel costs	(1,105)	-	(1,105)
Other income (expense)	2,665	(834)	3,499
TOTAL	(44,073)	(34,839)	(9,234)

The item amounted to €44 million and includes amortisation and depreciation (€19 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 at the end of 2018 with the Lavazza Professional business unit.
Provisions totalling €16 million refer primarily to provisions made for litigation and other contractual risks in addition to the provision for investments made in the Away From Home channel, particularly the Ho.Re.Ca. channel.

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11.7.2 Other one-off charges

Other one-off charges amounted to €13.5 million, of which about €12.5 million for donations supporting local projects for the healthcare system, schools and vulnerable groups following the health emergency linked to the Covid-19 pandemic. The remaining balance refers to costs relating to acquisitions carried out during the year.

11.7.3 Profit (loss) from investments in Joint Ventures

This represents the economic effect of the equity adjustment of the investment in Y&L Coffee Limited, a Chinese company in which Lavazza holds a 35% stake.

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 2020	Year 2019	Change
Wages and salaries	(252,574)	(239,759)	(12,815)
Social security contributions	(51,993)	(50,702)	(1,291)
Costs for defined benefit plans	(12,643)	(20,934)	8,291
Other costs	(20,347)	(23,572)	3,225
Total personnel costs	**(337,557)**	**(334,967)**	**(2,590)**
of which:			
- included in cost of sales	(54,637)	(55,261)	624
- included in selling costs	(119,503)	(119,772)	269
- included in other structure costs	(163,417)	(159,934)	(3,483)
Total personnel costs	**(337,557)**	**(334,967)**	**(2,590)**

Personnel expenses amounted to €337 million, up €2.6 million compared to the previous year mainly as a result of the increase in the Group's workforce.

Average headcount, broken down by category, is set out in the table below:

	Average
Categories	**2020**
Executives and Middle managers	904
White collars	1,819
Blue collars	1,430
Total	**4,153**

The following table shows the headcount at year-end and for the previous year:

Categories	2020	2019
Executives and Middle managers	927	809
White collars	1,827	1,936
Blue collars	1,418	1,277
Total	**4,172**	**4,022**

The increase in the number of employees compared to the previous year (4,022 at 2019 year-end) was in line with the Group's growth targets.

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 2020 and the previous year:

	Year 2020	Year 2019	Change
FV adjustments of securities in profit or loss	1,449	293	1,156
Income (expense) from derivatives	19,298	48	19,250
Exchange gains (losses)	(29,907)	7,815	(37,722)
Other financial income (expense)	(9,574)	(8,444)	(1,130)
TOTAL	**(18,734)**	**(288)**	**(18,446)**

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 €19,865 thousand and €567 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 €2.2 million to realised foreign exchange differences on purchases and sales in foreign currencies and for approximately €27.7 million to foreign exchange differences recognised to adjust assets and liabilities in currencies other than the local currency of the consolidated company (mainly effects linked to the US dollar) at the spot exchange rate at year-end.

Other financial income and expense were broken down as follows:

Other financial income	Year 2020	Year 2019	Change
Other financial income	3,733	921	2,812
Interest income from banks	1,476	272	1,204
Interest income on financial receivables	1,949	1,453	496
Total financial income	**7,158**	**2,646**	**4,512**

Other financial expense	Year 2020	Year 2019	Change
Interest and financial charges paid to banks	(5,641)	(6,233)	592
Interest paid to other lenders	(83)	(111)	28
Other financial expense	(11,008)	(4,746)	(6,262)
Total financial expense	**(16,732)**	**(11,090)**	**(5,642)**

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

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The “Other financial expense” item refers to the accrued interest paid on right-of-use liabilities, including interest accrued on the Nuvola Headquarters finance lease. It also includes the adjustment of the option right relating to the Kicking Horse acquisition that resulted in a financial expense of €2 million for the year.

Dividends and equity investments results

This item amounted to €107 thousand and refers to dividends on investments on current equity securities held by Lavazza Capital S.r.l.

11.10 Income taxes

Income taxes for the years ended 31 December 2020 and 2019 were broken down as follows:

	Year 2020	Year 2019	Change
Current taxes	(46,892)	(30,342)	(16,550)
Use (provision) for deferred tax liabilities	22,227	(7,591)	29,818
Provision (use) for deferred tax assets	8,458	9,481	(1,023)
TOTAL	**(16,207)**	**(28,452)**	**12,245**

As a result of the tax effect included in OCI:

Consolidated Statement of Other Comprehensive Income Components	2020	2019
Deferred taxes relating to items recognised in OCI for the year		
Gain/(loss) on the write-up of cash flow hedges	5,038	(10,556)
Unrealised gains/(losses) on financial assets	746	-
Net gain/(loss) on actuarial gains/(losses)	527	2,220
Income taxes in the Consolidated Statement of Other Comprehensive Income	**6,311**	**(8,336)**

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	**89,085**
Theoretical tax rate	**24%**
GROUP THEORETICAL TAX RATE	**(21,380)**
Dividends	(172)
Different tax ratio of Group companies	(9,724)
Permanent differences	37,444
ACE / Patent Box tax incentives	4,291
Temporary differences for IFRS adjustments and other consolidation adjustments	(3,058)
Temporary differences	84
Prior years' tax losses	(504)
Non-deductible taxes and costs	(13,119)
Prior years' taxes	(393)
IRAP (regional production tax)	(5,925)
Other local taxes	(3,751)
ACTUAL TAX RATE	**(16,207)**

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:

Type	31.12.2019	Change in consolidation area	Returns	Provisions	Exchange rate effect	Movements to OCI reserve	31.12.2020
Deferred deductibility costs	55,639	71	(13,166)	25,653	(571)	-	67,626
Elimination of fiscal effect of intercompany profits	3,672	-	(445)	2,394	-	-	5,621
FV adjustment of financial derivatives	1,927	-		-	-	3,660	5,587
Total deferred tax assets	**61,238**	**71**	**(13,611)**	**28,047**	**(571)**	**3,660**	**78,834**
DEFERRED TAX LIABILITIES							
Deferred tax liabilities on depreciation delta	51,515	-	(29,280)	15,859	-	-	38,094
Other passive differences	20,915	596	(10,669)	8,663	(890)	-	18,615
FV adjustment of financial derivatives	5,492	-	-	-	-	(1,971)	3,521
Total deferred tax liabilities	**77,922**	**596**	**(39,949)**	**24,522**	**(890)**	**(1,971)**	**60,230**

Following the 2020 revaluation of corporate assets as per Article 110 of Decree-Law 104/2020 (“August Decree”) carried out at Lavazza S.p.A., €16 million was released from the relevant provision for deferred taxes.

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12. Commitments and risks

Commitments and risks are given in the following table

Description	Amount received (€)
Commitments to purchase fixed assets	5,581
Commitments to purchase green coffee	14,447
Other real guarantees granted to third parties	775
Guarantees of credit lines granted to third parties	762
Total	**21,565**

This item includes primarily:

Commitments to purchase of fixed assets

This item refers to commitments made during the year by Carte Noire Operations S.a.s. for the future purchase of industrial plant and machinery.

Commitments to purchase green coffee

They refer to the commitments to purchase green coffee undertaken by the subsidiary Kicking Horse Coffee.

Personal guarantees on lines of credit

The subsidiary Lavazza France S.a.s. provides guarantees for loans contracted by its clients in connection with their operating activity.

Other guarantees to third parties

They chiefly refer to the guarantees on coffee machines lend to the subsidiary Lavazza Professional Germany.

Worth of notice are also the guarantees to third parties in favour of the Parent Company.

This item consists of guarantees given in our favour by banks: €1,500,000 in the interest of the Ministry of Economic Development for prize competitions; €3,414,261 in the interest of the of the Revenue Agency for the tax audit and €4,964,254.26 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; €204,093.02 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; €577,019.86 to Customs; €688,901.97 for property leases; and €74,000 for Italy's General Commissioner for the participation of Italy to EXPO 2020 DUBAI and referring to the sponsorship of the Italian pavilion.

13. Assets held for sale

Assets held for sale recognised in the Consolidated Statement of Financial Position include the industrial property located in Baranzate and a property for office use in Turin, with a value of €5,247 thousand and €3,150 thousand, respectively.
The properties will be sold and were both adjusted to fair value.
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, besides 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 in the year and the previous year:

2020								
Company	**Type**	**Sales of goods and services**	**Purchases goods and services**	**Financial expense**	**Trade receivables**	**Trade payables**	**Financial receivables**	**Financial payables**
Lavazza Trading (Shenzhen) Co. Ltd	Subsidiary	-	1,011	-	-	545	-	-
Lavazza Maroc S.a.r.l.	Subsidiary	4	136	-	4	81	-	-
Lavazza Entertainment S.r.l.	Other related party	-	-	1	-	-	-	493
Lavazza Eventi S.r.l.	Other related party	293	703	1	(1)	49	-	305
Lea S.r.l.	Other related party	383	274	-	-	4	16	2
Tosetti Value S.p.A.	Other related party	-	580	-	-	290	-	-
Chili S.p.A.	Other related party	-	1,487	-	-	75	-	-
Total		**705**	**4,466**	**2**	**3**	**1,045**	**16**	**799**

2019								
Company	**Type**	**Sales of goods and services**	**Purchases goods and services**	**Financial expense**	**Trade receivables**	**Trade payables**	**Financial receivables**	**Financial payables**
Lavazza Trading (Shenzhen) Co. Ltd	Subsidiary	-	874	-	-	547	-	-
Lavazza Maroc S.a.r.l.	Subsidiary	-	134	-	-	83	-	-
Lavazza Entertainment S.r.l.	Other related party	-	-	-	-	-	-	485
Lavazza Eventi S.r.l.	Other related party	401	1,051	-	179	127	-	1,125
Lea S.r.l.	Other related party	226	374	-	-	11	-	706
Tosetti Value S.p.A.	Other related party	-	580	-	-	145	-	-
Chili S.p.A.	Other related party	2,500	5,437	-	-	3	-	-
Total		**3,128**	**8,450**	**1**	**179**	**916**	**-**	**2,316**

Sales to and purchases from related parties are carried out at arms' length conditions. For the year ended 31 December 2020, 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.
Regarding transactions with related parties, these cannot be categorised either as atypical or unusual and fall within the normal course of Group company operations. These transactions are settled at arm's length and have been conducted under conditions equivalent to those prevailing in free transactions between independent parties.
Related parties have not changed substantially from the previous year.

Remuneration paid to Directors and Statutory Auditors is detailed in the following table (values in Euro):

	Total remuneration paid
Fixed remuneration to Directors	1,665,144
Fixed remuneration to Statutory Auditors	183,387
Total	**1,848,531**

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 2020, as well as the total amount of consideration accrued for other minor services relating to methodological support activities.

Activity	**Company**	**2020**
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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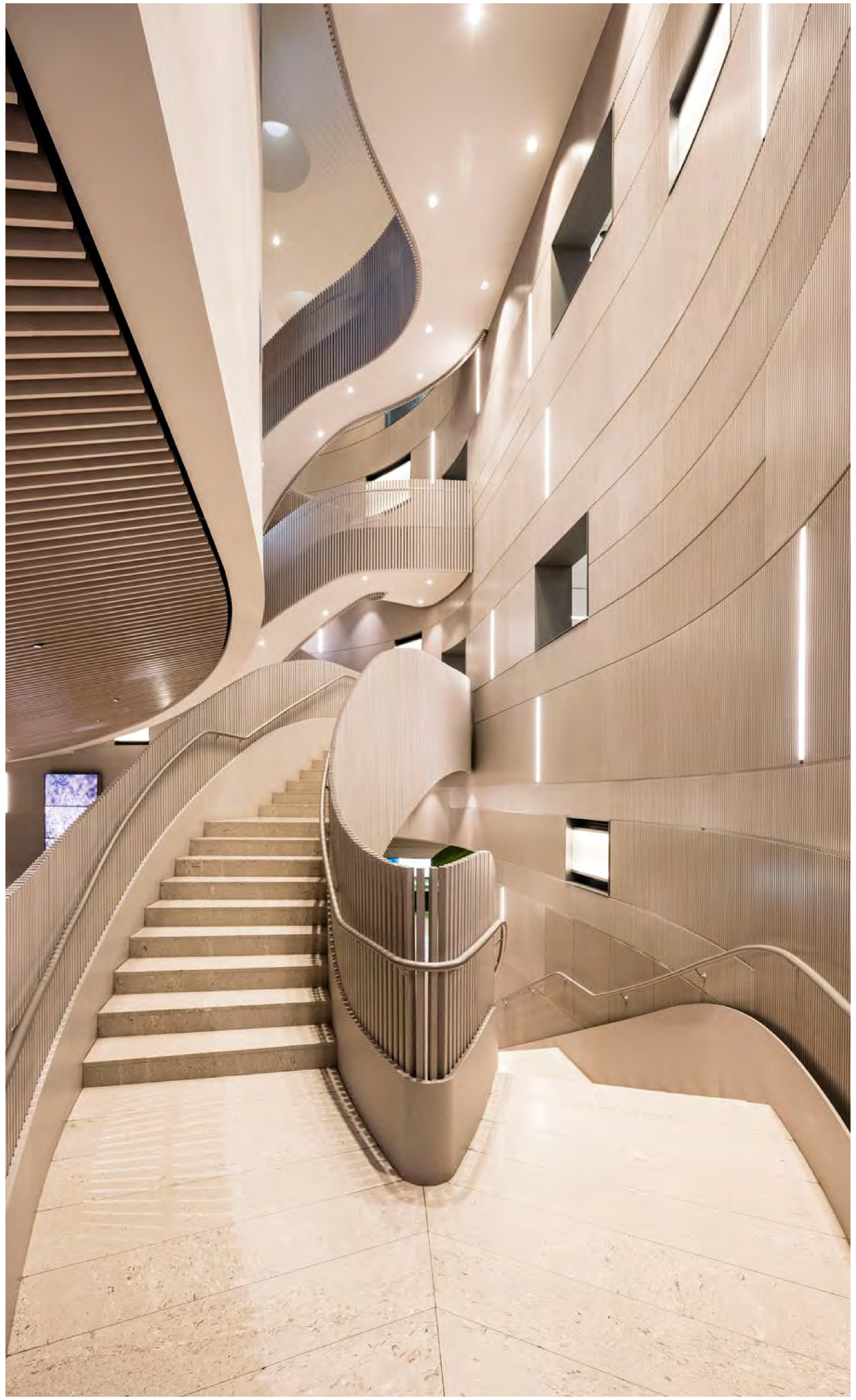
16. Post balance sheet events

The first few months of 2021 were characterised by the ongoing spread of Covid-19.
This health emergency, which had initially struck China, spread globally resulting in a block on commercial activities that has continued into 2021 with severe repercussions for the trade of goods and services, as well as the movement of people.
The persistence of this situation could have further adverse consequences, in both the near and medium term, within a framework of macroeconomic deterioration at the national and global level. The current vaccination programme should significantly reduce the spread of the pandemic, and hence lead to a gradual reopening of commercial operations and the recovery of trade and movement of people locally.
In a context still markedly affected by the evolution of the pandemic, the crisis has not changed the strategy of the Group, which has continued to look to the future, focusing on innovation and sustainability — concepts that underpin the new products that will be launched on the market in 2021.
Entering new markets and launching new products will enable the Group to get the best out of each of its brands, creating a perfect blend made up of the global Lavazza brand, the three "local jewels" — Carte Noire, Merrild and Kicking Horse Coffee — and its best specialists in the professional sector, namely Lavazza Professional, ESP and Nims.
The goal for the coming year is to strengthen the Group further in terms of resilience and dynamism.



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Building a better working world

Luigi Lavazza S.p.A.

Consolidated financial statements as at December 31, 2020

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

Building a better working world

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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 Lavazza Group (the Group), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of income, 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, 2020, 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.

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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 or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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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 Lavazza Group as at December 31, 2020, 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 Lavazza Group as at December 31, 2020 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 Lavazza Group as at December 31, 2020 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, 2021

EY S.p.A.
Stefania Boschetti, Auditor

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

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Balance Sheet - Assets

		31.12.2020		31.12.2019	
A)	CALLED-UP SHARE CAPITAL NOT PAID		-		-
B)	ASSETS				
I)	INTANGIBLE ASSETS				
1)	start-up and expansion costs	-		-	
2)	development costs	4,301,648		3,449,814	
3)	industrial patent rights and rights for exploitation of intellectual property	331,118		353,750	
4)	concessions licenses, trademarks and similar rights	227,366,814		242,779,330	
5)	goodwill	270,612,542		288,470,220	
6)	intangible assets in process and advances	8,859,339		9,036,876	
7)	other	34,390,211		26,317,563	
	TOTAL INTANGIBLE ASSETS	545,861,672		570,407,553	
II)	PROPERTY, PLANT AND EQUIPMENT				
1)	land and buildings	83,790,568		88,048,929	
2)	plant and machinery	209,946,525		116,669,328	
3)	industrial and commercial equipment	57,127,887		67,855,097	
4)	other assets	11,730,104		11,928,295	
5)	tangible assets in process and advances	12,755,981		28,779,255	
	TOTAL TANGIBLE ASSETS	375,351,065		313,280,904	
III)	FINANCIAL ASSETS				
1)	investments in:				
	a) subsidiaries	1,259,400,369		1,213,440,777	
	b) associates	6,262,747		25,000	
	d-bis) other companies	7,293,758		7,319,881	
2)	receivables:				
	a) to subsidiaries	161,541,089		172,404,294	
	d-bis) to others	788,668		925,948	
4)	derivative financial assets	4,878,885		3,471,190	
	TOTAL NON-CURRENT FINANCIAL ASSETS	1,440,165,516		1,397,587,090	
	TOTAL FIXED ASSETS (B)		2,361,378,253		2,281,275,547
C)	CURRENT ASSETS				
I)	INVENTORIES				
1)	raw material, ancillaries and consumables	191,582,276		173,577,692	
2)	work in progress and semi-finished goods	1,019,729		1,571,944	
4)	finished products and goods	95,125,342		88,136,723	
5)	advances payments	876,015		444,230	
	TOTAL INVENTORIES	288,603,362		263,730,589	
II)	RECEIVABLES				
1)	trade receivables				
	a) due within one year	102,050,470		119,137,736	
2)	from subsidiaries				
	a) due within one year	253,896,380		265,612,265	
3)	from related companies				
	a) due within one year	16,509		194,236	
4)	from parent companies				
	a) due within one year	-		12,526,654	
5-bis)	tax receivables	8,975,163		12,958,553	
5-ter)	prepaid taxes	41,453,828		30,873,507	
5-quater)	other receivables				
	a) due within one year	8,983,764		14,433,753	
	TOTAL RECEIVABLES	415,376,114		455,736,704	
III)	FINANCIAL ASSETS OTHER THAN FIXED ASSETS				
5)	derivative financial assets	15,297,219		24,211,558	
6)	other securities	-		-	
	TOTAL FINANCIAL ASSETS OTHER THAN FIXED ASSETS	15,297,219		24,211,558	
IV)	CASH AND CASH EQUIVALENTS				
1)	bank and post office deposits	179,161,026		247,295,896	
3)	cash and valuables on hand	144,347		58,362	
	TOTAL CASH AND CASH EQUIVALENTS	179,305,373		247,354,258	
V)	TANGIBLE ASSET HELD FOR SALE	8,386,337		5,236,337	
	TOTAL WORKING CAPITAL (C)		906,968,405		996,269,446
D)	PREPAYMENTS AND ACCRUED INCOME		28,718,976		33,660,088
	TOTAL ASSETS		3,297,065,634		3,311,205,081

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Balance Sheet – Equity and Liabilities

		31.12.2020		31.12.2019
A)	EQUITY			
I.	SHARE CAPITAL	25,000,000		25,000,000
II.	SHARE PREMIUM ACCOUNT	223,523		223,523
III.	REVALUATION RESERVES	426,580,270		361,721,428
IV.	LEGAL RESERVE	5,000,000		5,000,000
V.	STATUTORY RESERVES	-		-
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 dpr 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 on exchange gains	7,907,933		-
	merger surplus	56,953,074		56,953,074
VII.	HEDGE RESERVE FOR EXPECTED CASH FLOWS	(6,451,155)		6,086,726
VIII.	PROFIT CARRIED FORWARD	1,487,239,948		1,439,136,282
IX.	PROFIT FOR THE YEAR	91,470,155		106,186,603
X.	NEGATIVE RESERVE FOR TREASURY SHARES IN PORTFOLIO	(17,732,533)		(17,732,533)
	TOTAL EQUITY		2,280,752,204	2,187,136,092
B)	PROVISIONS			
1)	for pension and similar obligations	2,794,874		2,974,278
2)	for taxes, including deferred	5,402,306		10,074,201
3)	derivative financial liabilities	19,964,026		12,421,805
4)	other	90,391,591		70,396,989
	TOTAL PROVISIONS		118,552,797	95,867,273
C)	EMPLOYEE LEAVING INDEMNITIES EMPLOYMENT		12,578,630	13,715,649
D)	LIABILITIES			
4)	payables to banks			
	a) due within one year	155,130,600		125,286,584
	b) due after one year	309,308,816		463,753,017
6)	advances payments	992,830		632,381
7)	trade payables	203,294,883		248,612,905
9)	payables to subsidiaries	125,905,797		112,280,679
10)	payables to related companies	978,330		2,456,942
11)	payables to the Parent	10,199,264		-
12)	deferred tax liabilities	8,863,397		3,758,996
13)	social security liabilities	5,878,681		5,741,593
14)	other liabilities	58,297,454		46,654,146
	TOTAL LIABILITIES		878,850,052	1,009,177,243
E)	ACCRUALS AND DEFERRED INCOME		6,331,951	5,308,824
	TOTAL EQUITY AND LIABILITIES		3,297,065,634	3,311,205,081

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Statement of Profit or Loss

		Year 2020		Year 2019	
A)	VALUE OF PRODUCTION				
1)	net revenues	1,520,996,333		1,512,354,442	
2)	change in inventories of work in progress, semi-finished and finished goods	6,436,404		959,850	
5)	other income and revenues:				
	a) miscellaneous	102,477,862		95,321,103	
	b) grants	1,438,713		3,311,267	
	TOTAL VALUE OF PRODUCTION		1,631,349,312		1,611,946,662
B)	COSTS OF PRODUCTION				
6)	for raw materials, ancillaries, consumables and goods	748,586,719		732,154,885	
7)	for services	498,155,818		521,123,292	
8)	for use of third-party assets	22,549,496		21,494,370	
9)	for personnel:				
	a) wages and salaries	114,390,141		109,476,457	
	b) social security costs	32,082,590		31,011,573	
	c) severance indemnities	8,211,482		8,741,301	
	e) other costs	8,286,304		7,935,065	
10)	amortisation, depreciation and write-downs				
	a) amortisation	43,646,706		40,921,688	
	b) depreciation	40,540,226		37,722,696	
	c) other write-downs of fixed assets	2,623,967		4,637,814	
	d) write-downs of current receivables and of cash and cash equivalents	2,839,084		1,344,963	
11)	changes in inventories of raw material, ancillaries, consumables and goods	(18,004,584)		(6,742,355)	
12)	provisions for risks	11,648,648		16,124,686	
13)	other provisions	1,239,340		388,382	
14)	miscellaneous operating costs	27,499,248		17,204,720	
	TOTAL COSTS OF PRODUCTION		1,544,295,185		1,543,539,537
	DIFFERENCE BETWEEN VALUE AND COSTS OF PRODUCTION (A - B)		87,054,127		68,407,125
C)	FINANCIAL INCOME AND EXPENSE				
15)	Income from investments				
	- from subsidiaries and associates	33,053,684		41,532,409	
16)	Other financial income				
	a) from non-current receivables				
	- from subsidiaries and associates	3,806,850		6,691,119	
	d) income other than the preceding ones				
	- from subsidiaries and associates	26,971		3,261	
	- from companies controlled by the Parent	638		294	
	- from other companies	558,955		124,229	
17)	interest and other financial expense				
	- from subsidiaries and associates	(678,811)		(629,780)	
	- paid to companies controlled by the parent company	(2,091)		(853)	
	- paid to other companies	(5,506,957)		(6,081,914)	
17-bis)	exchange gains and losses	(6,564,852)		9,224,822	
	TOTAL FINANCIAL INCOME AND EXPENSES		24,694,387		50,863,587
D)	VALUE ADJUSTMENTS TO FINANCIAL ASSETS				
18)	write-ups				
	a) of equity investments	-		-	
	d) of derivatives	2,855,470		2,567,494	
19)	write-downs:				
	a) of equity investments	(2,947,233)		(3,047,297)	
	b) of financial fixed assets other than investments	-		-	
	c) of current securities other than investments	-		-	
	d) of derivatives	(652,989)		(3,476,655)	
	TOTAL VALUE ADJUSTMENTS OF FINANCIAL ASSETS		(744,752)		(3,956,458)
	PROFIT BEFORE TAXES (A-B + -C + -D + -E)		111,003,762		115,314,254
20)	current, deferred and prepaid income taxes for the year				
	current taxes		(28,002,019)		(11,376,694)
	deferred tax liabilities		(423,953)		(1,441,228)
	deferred tax assets		7,015,637		3,678,724
	reversal of deferred tax liabilities		1,876,728		11,547
21)	PROFIT FOR THE YEAR		91,470,155		106,186,603

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Statement of Cash Flows

		Year 2020	Year 2019
A	Cash flows from operating activities		
	Profit (loss) for the year	91,470,155	106,186,603
	Income taxes	19,533,607	9,127,651
	Interest expense / (interest income)	8,359,297	(9,331,178)
	(Dividends)	(33,053,684)	(41,532,409)
1	**Profit (loss) for the year before income taxes, interest, dividends and gains / losses from disposal**	**86,309,375**	**64,450,667**
	Adjustments for non-monetary items that have no offsetting entry in net working capital		
	Provisions	47,964,292	49,968,343
	Provision of employee severance indemnities	160,678	211,494
	Amortisation and depreciation	84,186,932	78,644,384
	Write-down / write-up of equity investments and derivatives	2,973,356	3,047,297
	Other impairment losses	2,623,967	4,794,404
	Value adjustments to derivative financial assets and liabilities that do not entail monetary movements	(12,537,881)	20,941,386
	Other adjustments for non-monetary items	(2,005,944)	-
	Net effect of merger	185,935	-
2	**Cash flow before changes in net working capital**	**209,860,710**	**222,057,976**
	Changes in net working capital		
	Decrease / (increase) in inventories	(28,022,773)	(12,763,634)
	Decrease / (increase) in trade receivables	17,087,266	19,583,272
	Decrease / (increase) in receivables from subsidiaries	13,288,570	(27,454,172)
	Decrease / (increase) in receivables from associates	177,727	(194,236)
	Decrease / (increase) in receivables from Parent	-	-
	Increase / (decrease) in trade payables	(44,957,573)	12,307,358
	Increase / (decrease) in payables to subsidiaries	6,658,652	(719,112)
	Increase / (decrease) in payables to associates	(1,478,612)	2,456,942
	Increase / (decrease) in payables to Parent	10,199,264	-
	Decrease / (increase) in prepayments and accrued income	4,941,112	13,916,536
	Increase / (decrease) in accruals and deferred income	1,023,127	(1,536,776)
	Other changes in net working capital	12,860,132	(12,319,349)
3	**Cash flow after changes in net working capital**	**201,637,603**	**215,334,805**
	Other adjustments		
	Interest received / (paid)	(8,359,297)	9,331,178
	(Income taxes paid)	(4,129,230)	(2,950,863)
	Dividends collected	29,053,684	41,532,409
	(Use of funds)	(25,278,768)	(25,244,922)
	(Severance indemnities paid)	(1,297,697)	(1,203,682)
	Total cash flows from operating activities (A)	**191,626,294**	**236,798,924**

		Year 2020	Year 2019
B	Cash flows from investing activities		
	Property, plant and equipment		
	(Investments)	(41,526,020)	(74,916,689)
	Disposal price	4,360,552	5,602,814
	Intangible assets		
	(Investments)	(19,124,925)	(19,318,118)
	Disposal price	-	-
	Financial assets		
	(Investments)	(53,054,198)	(111,071,518)
	Disposal price	11,000,485	163,424,076
	Current financial assets		
	(Investments)	8,914,339	(8,850,688)
	Disposal price	-	-
	Total cash flows from investing activities (B)	**(89,429,767)**	**(45,130,123)**
C	Cash flows from financing activities		
	Third-party funds		
	Increase (decrease) in short-term payables + other than to banks	(124,600,185)	(99,536,358)
	Increase (decrease) in financial payables to subsidiaries	4,529,777	97,815,118
	Own funds		
	(Dividends (and advances on dividends) paid)	(50,175,004)	(35,100,003)
	Total cash flows from financing activities (C)	**(170,245,412)**	**(36,821,243)**
	Increase (decrease) in cash and cash equivalents (A + - B + - C)	**(68,048,885)**	**154,847,558**
	Cash and cash equivalents at year-start	**247,354,258**	**92,506,700**
	Cash and cash equivalents at year-end	**179,305,373**	**247,354,258**

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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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 No. 127 of 9 April 1991, as amended by Legislative Decree No. 6 of 17 January 2003 and Legislative Decree No. 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 Directors' 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 2020 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 No. 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 Nos. 408/1990, 342/2000, 350/2003 and 266/2005.
The cost of intangible assets is systematically amortised on a straight-line basis each year, considering the residual useful life of the asset. The rates applied are set out in the section of the Notes on Assets.

Start-up and expansion costs

Start-up and expansion costs, 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 among assets 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 term.

Concessions, licences, trademarks and similar rights

Concessions, licences, trademarks and similar rights, where purchased for consideration, are recognised among assets 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 term 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 No. 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 process and advances

Fixed assets in process 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.

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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 a 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.

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Investments and financial receivables

Investments

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

Investments intended to be held for the long term are recognised among financial assets.

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

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

Financial receivables

Pursuant to Article 12, paragraph 2, of Legislative Decree No. 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 No. 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 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 financial 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 No. 139/2015, the Company has opted for prospective application of the new basis of measurement for receivables at amortised cost and the discounting of receivables.
Consequently, receivables recognised prior to the year beginning on 1 January 2016 are carried at their presumed realisable value, which corresponds to the difference between the nominal amounts of the receivables, adjusted by bad debt provisions, which are directly deducted from the items to which they refer, whereas payables are carried at their nominal values.
Receivables and payables recognised on or after 1 January 2016 are measured at amortised cost, considering the time factor and, in the case of receivables, their presumed realisable value.
The value at initial recognition is represented by the nominal value, net of all premiums, discounts, allowances and any costs directly attributable to the transaction that gave rise to the receivable or payable.

Transaction costs, commissions payable and receivable, where applicable, and all differences between the initial value and nominal value at maturity are included in the calculation of amortised cost by using the effective interest method.

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

The estimate of the inventory write-down provision is based on the Company's expected impairment losses, as determined in light of past experience and also prospectively considering the probability of counterparty's insolvency, the loss rate in case of insolvency and the exposure accrued at the moment of default.
Any factored receivables are derecognised if, and only if, essentially all risks associated with the receivable have been transferred. Otherwise, they continue to be carried forward, and a financial liability of equal amount is recognised to account for the advance received.

Cash and cash equivalents

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

Accruals and deferrals

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

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Provisions for risks and charges

Provisions for risks and charges are allocated to cover losses or liabilities of a stated nature and of a 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 No. 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 the capital and the operating result 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.

Dividends

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

Financial income and expense

All finance income and expense associated with the Company's operating result for the year are recognised on an accrual basis.
Gains and losses on the conversion 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 No. 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.

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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.

Derivatives

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

- Interest-rate risk: this risk is tied to the variability of interest rates payable on floating-rate financing and lease contracts, driven by the fluctuation of market interest rates (Euribor);
- Exchange risk: this risk is tied to the variability of revenues and costs denominated in foreign currencies, driven by the fluctuation of the exchange rates between the Euro and the respective foreign currencies; at present, the main exposure to foreign-exchange risk relates to the risk tied to purchases of green coffee denominated in U.S. dollars (USD);
- Price risk: the risk associated with the variability of the cost of purchasing green coffee, driven by the performance of market coffee prices quoted on the major international markets.

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

The following tables report changes in intangible assets:

Balance sheet items	Balance at 01.01.2020	Merger	Increases	Reclassification	(Decreases)	Balance at 31.12.2020
Development costs						
Gross value	11,081,336	-	-	2,653,630	-	13,734,966
Write-ups	-	-	-	-	-	-
(Write-down provision)	(170,776)	-	-	-	-	(170,776)
(Accumulated amortisation)	(7,460,746)	-	(1,801,796)	-	-	(9,262,542)
Net value	**3,449,814**	**-**	**(1,801,796)**	**2,653,630**	**-**	**4,301,648**
Industrial patent and intellectual property rights						
Gross value	878,394	-	-	224,860	-	1,103,254
Write-ups	-	-	-	-	-	-
(Write-down provision)	-	-	-	-	-	-
(Accumulated amortisation)	(524,644)	-	(247,492)	-	-	(772,136)
Net value	**353,750**	**-**	**(247,492)**	**224,860**	**-**	**331,118**
Concessions, licenses and similar rights						
Gross value	191,624,091	-	1,000,362	8,502	(6,672,645)	185,960,310
Write-ups	-	-	-	-	-	-
(Write-down provision)	-	-	-	-	-	-
(Accumulated amortisation)	(58,427,671)	-	(9,306,788)	-	6,672,645	(61,061,814)
Net value	**133,196,420**	**-**	**(8,306,426)**	**8,502**	**-**	**124,898,496**
Trademarks						
Gross value	154,099,219	-	-	-	-	154,099,219
Write-ups	303,949,656	-	-	-	-	303,949,656
(Write-down provision)	(3,623,965)	-	-	-	-	(3,623,965)
(Accumulated amortisation)	(344,842,000)	-	(7,114,592)	-	-	(351,956,592)
Net value	**109,582,910**	**-**	**(7,114,592)**	**-**	**-**	**102,468,318**
Goodwill						
Gross value	371,426,371	-	-	-	-	371,426,371
Write-ups	-	-	-	-	-	-
(Write-down provision)	(4,894,056)	-	-	-	-	(4,894,056)
(Accumulated amortisation)	(78,062,095)	-	(17,857,678)	-	-	(95,919,773)
Net value	**288,470,220**	**-**	**(17,857,678)**	**-**	**-**	**270,612,542**
Tangible assets in process and advances						
Gross value	9,036,876	-	17,840,125	(18,017,662)	-	8,859,339
(Write-down provision)	-	-	-	-	-	-
Net value	**9,036,876**	**-**	**17,840,125**	**(18,017,662)**	**-**	**8,859,339**
Other intangible assets						
Gross value	51,631,937	(27,200)	284,438	15,130,670	(4,824,102)	62,195,743
Write-ups	-	-	-	-	-	-
(Write-down provision)	(19,216)	-	-	-	19,216	-
(Accumulated amortisation)	(25,295,158)	3,100	(7,318,360)	-	4,804,886	(27,805,532)
Net value	**26,317,563**	**(24,100)**	**(7,033,922)**	**15,130,670**	**-**	**34,390,211**
Total intangible assets						
Gross value	789,778,224	(27,200)	19,124,925.00	-	(11,496,747)	797,379,202
Write-ups	303,949,656	-	-	-	-	303,949,656
(Write-down provision)	(8,708,014)	-	-	-	19,216	(8,688,798)
(Accumulated amortisation)	(514,612,313)	3,100	(43,646,706)	-	11,477,531	(546,778,388)
Net value	**570,407,553**	**(24,100)**	**(24,521,781)**	**-**	**-**	**545,861,672**

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The €2,653,630 increase in “development costs” refers to investments in technological innovation relating to the closed-system coffee machines of the BLUE, Firma and A Modo Mio brands launched in the previous year and completed in the current year.

The increase in “industrial patent and intellectual property rights”, amounting to €224,860, is primarily attributable to the development of the e-commerce website for Lavazza’s new “1895 Coffee Designers” brand which, together with the opening of the new plant, brings an innovative industrial model, where a highly select coffee is produced in state-of-the-art plants.

The increase in item “concessions, licenses and similar rights”, amounting to €1,000,362, and reclassifications amounting to €8,502 are chiefly attributable to licenses for software for long-term use. The €6,672,645 decreases in both gross values and accumulated amortisation relate to the termination of IT licences that are no longer in use.

The €17,840,125 increase in item "Intangible assets in process and advances" chiefly refers to costs incurred in the year for software developments, while reclassifications amounting to €18,017,662 are attributable in part to the capitalisation of IT costs for the development of software for long-term use for €15,130,670 and the capitalisation of development costs for technological innovation focusing on coffee machines for €2,653,630.

The €284,438 increase in item "other intangible assets" and reclassifications amounting to €15,130,670 are mainly attributable to the capitalisation of IT costs for the development of unprotected software projects for long-term use for €15,050,400 and the renovation of the Turin facilities for €80,269.

The €4,824,102 decreases are primarily due to the discontinuation of unprotected software for long-term use that is no longer maintained. The accounting standard OIC 24 requires that the cost of unprotected software be amortised over its expected useful life.

The following tables shows the useful lives of fixed assets:

	2020
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	3-5-7 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 01.01.2020	Merger	Increases	Reclassification	(Decreases)	Balance at 31.12.2020
Land and buildings						
Gross value	113,727,431	1,377,131	57,414	750,112	(4,763,555)	111,148,533
Write-ups	52,395,568	-	-	-	(12,170,413)	40,225,155
(Write-down provision)	(10,196,643)	-	(1,905,317)	-	3,732,877	(8,369,083)
(Accumulated depreciation)	(67,877,427)	(181,364)	(2,644,210)	-	11,488,964	(59,214,037)
Net value	**88,048,929**	**1,195,767**	**(4,492,113)**	**750,112**	**(1,712,127)**	**83,790,568**
Plant and machinery						
Gross value	531,058,491	19,208	2,602,197	35,358,520	(6,738,786)	562,299,630
Write-ups	41,665,563	-	66,864,786	-	(203,063)	108,327,286
(Write-down provision)	(596,342)	-	(308,398)	-	102,296	(802,444)
(Accumulated depreciation)	(455,458,384)	(10,875)	(11,145,867)	-	6,737,179	(459,877,947)
Net value	**116,669,328**	**8,333**	**58,012,718**	**35,358,520**	**(102,374)**	**209,946,525**
Industrial and commercial equipment						
Gross value	179,638,988	-	14,518,929	1,590,715	(10,395,295)	185,353,337
Write-ups	1,165,417	-	-	-	-	1,165,417
(Write-down provision)	(6,793,473)	-	(410,252)	-	402,008	(6,801,717)
(Accumulated depreciation)	(106,155,835)	-	(23,887,605)	-	7,454,290	(122,589,150)
Net value	**67,855,097**	**-**	**(9,778,928)**	**1,590,715**	**(2,538,997)**	**57,127,887**
Furniture and fittings						
Gross value	24,720,396	-	696,622	1,012,404	-	26,429,422
Write-ups	-	-	-	-	-	-
(Write-down provision)	(108,566)	-	-	-	-	(108,566)
(Accumulated depreciation)	(16,653,961)	-	(1,326,503)	-	-	(17,980,464)
Net value	**7,957,869**	**-**	**(629,881)**	**1,012,404**	**-**	**8,340,392**
Means of transport						
Gross value	879,006	-	-	-	-	879,006
Write-ups	-	-	-	-	-	-
(Write-down provision)	-	-	-	-	-	-
(Accumulated depreciation)	(702,288)	-	(17,162)	-	-	(719,450)
Net value	**176,718**	**-**	**(17,162)**	**-**	**-**	**159,556**
Electronic machinery						
Gross value	25,380,305	-	757,695	204,685	(157,384)	26,185,301
Write-ups	-	-	-	-	-	-
(Write-down provision)	-	-	-	-	-	-
(Accumulated depreciation)	(21,586,597)	-	(1,518,879)	-	150,331	(22,955,145)
Net value	**3,793,708**	**-**	**(761,184)**	**204,685**	**(7,053)**	**3,230,156**
Tangible assets in process and advances						
Gross value	28,779,254	-	22,893,163	(38,916,436)	-	12,755,981
Write-ups	-	-	-	-	-	-
(Write-down provision)	-	-	-	-	-	-
(Accumulated depreciation)	-	-	-	-	-	-
Net value	**28,779,255**	**-**	**22,893,163**	**(38,916,436)**	**-**	**12,755,981**
Total tangible assets						
Gross value	904,183,871	1,396,339	41,526,020	-	(22,055,020)	925,051,210
Write-ups	95,226,548	-	66,864,786	-	(12,373,477)	149,717,858
(Write-down provision)	(17,695,024)	-	(2,623,967)	-	4,237,181	(16,081,810)
(Accumulated depreciation)	(668,434,492)	(192,239)	(40,540,226)	-	25,830,764	(683,336,193)
Net value	**313,280,903**	**1,204,100**	**65,226,613**	**-**	**(4,360,552)**	**375,351,065**

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The item “land and buildings” increased primarily due to the entry into operation during the year of investments started in the previous year amounting to €750,112 and regarding the renovation of a number of industrial buildings located in Gattinara and Settimo Torinese. The net decreases of €1,712,127 refer primarily to the sale of the building located in Sintra in Portugal and the reclassification under “Assets held for sale” of a building located in Turin for which a preliminary contract of sale was entered into during the year.
The net increase due to merger, equal to €1,195,767, relates to an industrial building acquired following the merger of the subsidiary I.N.N.E.T. S.r.l.

The item “plant and machinery” increased by €2,602,197 due to direct purchases of industrial machinery and by €35,358,520 in the light of the closure of investment orders for the construction of two new packaging lines for BLUE capsules and “millegrani” ground coffee packs and for the construction of production plants and lines in the new Turin-based “Factory 1895”, a brand that features an innovative and “experiential” industrial model for the production of a highly select coffee.

At the year-end the company decided to revalue its own main tangible assets belonging to the plant and machinery category in compliance with the provisions of article 110 of Decree Law No. 104 of 14 August 2020 (so-called ‘August Decree’), converted into Law No. 126 of 13 October 2020 (Italian Official Journal, 13 October 2020, No. 253, Ordinary Supplement No. 37), in force since 14 October 2020, which allowed the revaluation of business assets, as well as equity investments held by corporations and commercial entities which do not adopt international accounting standards in the preparation of financial statements.
The values recorded in the financial statements and in inventory following the revaluation do not in any case exceed the values actually attributable to the assets with regard to their amount, their production capacity, the actual possibility of economic use in the business (so-called ‘economic value’, or ‘internal value’), as well as the current values and prices recorded in Italian or foreign regulated markets (so-called ‘market value’).
The Company has allocated the 3% substitutive tax of €2,005,944 to the positive revaluation balance of €66,864,786. This will be paid in a maximum of three instalments of equal amount, the first of which by the deadline for paying the balance of income taxes due for the tax period with reference to which the revaluation is carried out.
Net decreases of €102,374 primarily refer to the discontinuation 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 as a result of purchases for the year amounting to €14,518,929, chiefly relating to the installation of Firma machines in the OCS sector and of espresso machines at the cafés within the Food Service sector, in addition to reclassifications amounting to €1,590,715, primarily attributable to advances for mould purchases.
Net decreases of €2,538,997 chiefly refer to the disposal of espresso machines and Firma machines.

The item “furniture and fittings” increased due to purchases during the year of €696,622 and reclassifications of €1,012,404, related to the purchases and the closing of advances relating to the furnishings of the Headquarters.
The €757,695 increase from invoices relating to the item “electronic machinery” and from reclassifications of €204,685 primarily relates to purchases of computers and IT equipment.

The €22,893,163 increase in the item "tangible assets in process and advances" refers to costs incurred during the year for purchases of plant and machinery, while reclassifications for €38,916,436 are in part to be attributed to the construction of new production lines and plants for €35,358,520 and the purchase of industrial moulds and equipment for €1,590,715.

During the year, depreciation totalled €2,623,967, mainly referring to the write-down of the Company's civil and industrial buildings.

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

The following tables shows the useful lives of fixed assets:

	2020
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 No. 72 of 19 March 1983, the following is a statement of the write-ups applied to assets still carried at 31 December 2020:

	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	Re. Law 104/20	TOTAL
Buildings	88,975	704,100		2,849,283				36,582,796		40,225,154
Plant and machinery	23,451	296,679			31,464,847	9,677,523			66,864,786	108,327,285
Moulds					187,476	977,941				1,165,417
Motor vehicles										-
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**	**2,849,283**	**109,120,858**	**110,655,464**	**80,000,000**	**36,582,796**	**66,864,786**	**453,667,512**

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	108,650,301
+ Goods acquired under finance leases during the year	-
– Assets under finance lease redeemed during the year	-
– Depreciation charges accrued during the year	(3,510,415)
+/– Value adjustments/reversals on assets under finance leases	-
Assets under finance lease at the end of the year, net of depreciation	105,139,886
b) Redeemed assets	
Total greater value of redeemed assets	-
c) Liabilities	
Constructive payables for finance lease transactions at the end of the previous year	80,201,937
+ Constructive payables arisen during the year	-
- Repayment of portions of principal and redemptions made during the year	(4,258,140)
Constructive payables for finance lease transactions at the end of the year	75,943,797
d) Reversal of prepayments associated with finance leases	**20,459,573**
e) Reversal of payables for rent yet to be paid	-
f) Total gross effect at the end of the year (a + b - c - d - e)	**8,736,516**
g) Tax effect	**(2,437,488)**
h) Effect on equity at the end of the year (f - g)	**6,299,028**
Effect on the statement of profit or loss	
Reversal of rent on finance leases	5,727,985
Recognition of financial expense on finance leases	(1,990,252)
Recognition of:	
- Depreciation charges:	
· on contracts in force	(3,510,415)
· on redeemed goods	-
- Value adjustments/reversals on assets under finance lease	456,693
Effect on pre-tax result	684,010
Recognition of the tax effect	(190,839)
Effect on profit or loss of recognition of finance leases	493,172

Financial assets

Investments

Investments at 31 December 2020 were broken down as follows:

Company name	Historic cost	Prior years' write-downs	Value at 01.01.2020	Increases	Merger	Decreases	Write-downs for the year	Value at 31.12.2020
Subsidiaries								
Lavazza Australia Pty Ltd	4,804,617	-	4,804,617	-	-	-	-	4,804,617
Lavazza Argentina S.A.	6,831,379	(6,831,379)	-	348,612	-	-	(348,612)	-
Lavazza Capital S.r.l.	476,400,000	-	476,400,000	-	-	-	-	476,400,000
Lavazza Coffee (UK) Ltd	14,843	-	14,843	-	-	-	-	14,843
Lavazza Deutschland G.m.b.H.	153,227	-	153,227	-	-	-	-	153,227
Lavazza do Brasil Ltda	28,045,098	(28,045,098)	-	-	-	-	-	-
Lavazza France S.a.s.	27,939,862	-	27,939,862	-	-	-	-	27,939,862
Lavazza Kaffee G.m.b.H.	163,854	-	163,854	-	-	-	-	163,854
Lavazza Maroc S.a.r.l.	904	-	904	-	-	-	-	904
Lavazza Netherlands B.V.	130,000,000	(105,778,368)	24,221,632	2,000,000	-	-	(2,598,621)	23,623,011
Lavazza Premium Coffees Co.	1,164,635	-	1,164,635	-	-	-	-	1,164,635
Lavazza Professional Holding EU S.r.l.	51,000,000	-	51,000,000	24,500,000	-	-	-	75,500,000
Lavazza Professional Holding NA	324,061,848	-	324,061,848	21,049,163	-	-	-	345,111,011
Lavazza Spagna S.L.	13,079,422	(12,531,699)	547,723	-	-	-	-	547,723
Lavazza Sweden AB	1,855,000	-	1,855,000	-	-	-	-	1,855,000
Lavazza Trading (Shenzhen) Co.Ltd	1,000,000	-	1,000,000	-	-	-	-	1,000,000
Caffemotive S.r.l.	-	-	-	2,366,356	-	-	-	2,366,356
Cofincaf S.p.A.	3,063,719	-	3,063,719	-	-	-	-	3,063,719
Immobiliare I.N.N.E.T S.r.l.	2,002,987	(637,053)	1,365,934	-	(1,365,934)	-	-	-
Merrild Kaffe ApS	12,119,140	-	12,119,140	-	-	-	-	12,119,140
Carte Noire S.a.s	104,444,203	-	104,444,203	-	-	-	-	104,444,203
Kicking Horse Coffee Co. Ltd	116,061,395	-	116,061,395	-	-	-	-	116,061,395
Nims S.p.A.	63,058,241	-	63,058,241	8,628	-	-	-	63,066,869
Total subsidiaries	**1,367,264,374**	**(153,823,597)**	**1,213,440,777**	**50,272,759**	**(1,365,934)**	**-**	**(2,947,233)**	**1,259,400,369**
Associates								
Y&L Coffee Ltd	-	-	-	6,237,747	-	-	-	6,237,747
International Coffee Partners G.m.b.H.	25,000	-	25,000	-	-	-	-	25,000
Total associates	**25,000**	**-**	**25,000**	**6,237,747**	**-**	**-**	**-**	**6,262,747**
Other companies								
Air Vallée S.p.A.	25,823	-	25,823	-		(25,823)	-	-
Casa Commercio e Turismo S.p.A.	6,094	-	6,094	-		-	-	6,094
Connect Ventures One LP	6	-	6	-		-	-	6
Idroelettrica S.c.r.l.	300	-	300	-		(300)	-	-
INV A.G. 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**	**-**	**-**	**(26,123)**	**-**	**7,293,758**
Total investments	**1,387,321,597**	**(166,535,939)**	**1,220,785,658**	**56,510,506**	**(1,365,934)**	**(26,123)**	**(2,947,233)**	**1,272,956,874**

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With reference to operating investments, the strategic focus was generally 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 Professional Holding Europe S.r.l., in the amount of €24,500,000;
2. Lavazza Professional Holding North Americ Inca, in the amount of €21,049,163.
   Both of these injections of liquidity arose from the need of the two holding companies to financially support the investees throughout the OCS/Vending sector's crisis, which generated a drop in the Away From Home consumption during the Covid-19 pandemic;
3. Lavazza Netherlands B.V., in the amount of €2,000,000, to allow the company to subsequently capitalise its Indian subsidiary Fresh & Honest Café Ltd, operating in the OCS/Vending sector, sharply impacted by the Covid-19 pandemic;
4. Lavazza Argentina S.A., in the amount of €348,612, to cover the losses carried forward which offset the capital increase performed in the year through the waiver of receivables of the same amount.
5. Nims S.p.A., in the amount of €8,629, due to the purchase of some corporate shares held by minority shareholders;
6. Caffemotive S.r.l., in the amount of €2,366,356, in which a 100% interest was acquired in the reporting year;
7. Y&L Coffee Ltd, in the amount of €6,237,747. The latter, in which a 35% interest is held, is a NewCo through which Yum China Holdings and the Lavazza Group entered into a joint venture aimed at studying and developing the Lavazza Coffee Shop concept in China. The project was launched by opening the new Flagship Store Lavazza in Shanghai, the first outside Italy.

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

a. Lavazza Argentina S.A., in the amount of €348,612, due to reorganisation and review of Lavazza's distribution model in its markets;
b. Lavazza Netherlands B.V., in the amount of €2,598,621, primarily attributable to the write-down of the subsidiary Fresh & Honest Café Ltd. to account for the loss for the year ended 31 December 2020, deemed to be an impairment loss.

The €1,365,934 decrease for the year refers to the winding up of the company Immobiliare I.N.N.E.T. S.r.l. following its merger.

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

Company name	Registered office	Share capital	Equity	Profit (loss) for the year	% held	Carrying value
Subsidiaries						
Lavazza Argentina S.A.	Buenos Aires	457,397	256,139	(368,674)	97.54	-
Lavazza Australia Pty Ltd *	Hawthorn	4,599,019	5,118,505	550,754	100.00	4,804,617
Lavazza Capital S.r.l.	Turin	200,000	483,985,162	2,557,864	100.00	476,400,000
Lavazza Coffee (UK) Ltd	Uxbridge	899	2,177,595	2,130,091	100.00	14,843
Lavazza Deutschland G.m.b.H.	Frankfurt	210,000	8,928,421	6,308,627	100.00	153,227
Lavazza do Brasil Ltda	Rio de Janeiro	12,096,611	(397,933)	(934,217)	99.53	-
Lavazza France S.a.s.	Boulogne	21,445,312	26,974,751	710,624	100.00	27,939,862
Lavazza Kaffee G.m.b.H.	Vienna	218,019	999,698	781,679	100.00	163,854
Lavazza Maroc S.a.r.l.	Casablanca	916	72,565	5,031	100.00	904
Lavazza Netherlands B.V.	Amsterdam	111,500,000	23,623,013	(2,598,621)	100.00	23,623,011
Lavazza Premium Coffees Co.	New York	31,659,495	25,550,227	4,724,369	93.00	1,164,635
Lavazza Professional Holding EU S.r.l.	Turin	1,000,000	73,723,227	(642,909)	100.00	75,500,000
Lavazza Professional Hold NA Inc*	West Chester, PA, USA	1	296,453,626	(30,811,973)	100.00	345,111,011
Lavazza Spagna S.L.	Barcelona	1,090,620	715,951	21,856	100.00	547,723
Lavazza Sweden AB	Stockholm	9,966	2,346,027	60,526	100.00	1,855,000
Lavazza Trading (Shenzhen) Co.Ltd	Shenzhen	1,022,312	1,089,274	47,352	100.00	1,000,000
Caffemotive S.r.l.	Trieste	40,000	135,296	(320,801)	100.00	2,366,356
Carte Noire S.a.s	Boulogne	103,830,406	118,180,836	11,764,463	100.00	104,444,203
Cofincaf S.p.A.	Turin	3,000,000	12,659,190	320,953	99.00	3,063,719
Kicking Horse Coffee Co. Ltd	Invermere	137,525,877	153,668,135	8,940,273	80.00	116,061,395
Merrild Kaffe ApS	Middelfart	6,720	10,714,053	2,239,238	100.00	12,119,140
Nims S.p.A.	Padua	2,983,227	43,420,372	5,013,168	97.35	63,066,869

(*) These figures refer to the Consolidated Financial Statements of the Company and 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 2020.
With the exception of the write-down of 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.

In order to provide complete information, the table below reports a list of the main 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	54,519,212	992,222	Carte Noire S.a.s.	56,212,128	100
Fresh & Honest Café Ltd *	Chennai	1,018,341	20,040,754	450,789	Lavazza Netherlands B.V.	22,852,047	99.99
Merrild Baltics SIA	Riga	2,828	1,178,073	620,920	Merrild Kaffe ApS	2,497,962	100
Lavazza Pr.FR	Roissy CDG	279,706	(2,744,850)	(2,984,259)	LPH EU	2,694,173	100
Lavazza Pr.DE	Verden	50,000	6,887,257	(3,223,345)	LPH EU	75,480,570	100
Lavazza Pr.UK	Basingstoke	37,911,972	18,397,606	(7,724,992)	LPH EU	36,622,368	100
Lavazza Pr.Japan GK	Tokyo	8	(16,397)	(917,647)	LPH NA	8	100

(*) These figures refer to the Financial Statements for the year ended at 31 March 2020.

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Receivables

They consist of:

	31.12.2020	31.12.2019	Changes
Receivables from subsidiaries	161,541,089	172,404,294	(10,863,205)
Other receivables	788,668	925,948	(137,280)
Total	**162,329,757**	**173,330,242**	**(11,000,485)**

Receivables from subsidiaries include:
- The long-term financial receivable from Lavazza Australia Pty Ltd for the AUD 5,570,431 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 long-term financial receivable from Caffemotive S.r.l. granted in the reporting year for €470,304.

The item "other receivables" consists of security deposits (€317,175) and financial receivables from Connect Ventures One LP (€471,492), 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 *fair value* of outstanding derivatives at 31 December 2020 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 65,750,516	Exchange rate risk	4,855,913	Sales
EUR 22,972	Commodity risk	22,972	Purchases of green coffee
Total		**4,878,885**	

The following table shows movements for the year:

	31.12.2020	31.12.2019	Changes
Derivatives to hedge exchange-rate risk	4,855,913	921,349	3,934,564
Derivatives to hedge commodity risk	22,972	2,549,841	(2,526,869)
Derivatives to hedge interest-rate risk	-	-	-
Total	**4,878,885**	**3,471,190**	**1,407,695**

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. S.r.l.	7,287,658	10,527,707
Other	6,100	6,100
Total investments in other companies	**7,293,758**	**10,533,807**
Other receivables:		
Financial receivables from subsidiaries	161,541,089	161,541,089
Guarantee deposits	317,175	317,175
Receivables from Connect Ventures One LP	471,492	1,335,227
Total other receivables	**162,329,756**	**163,193,491**

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Current Assets

Inventories

	31.12.2020	31.12.2019	Changes
Raw materials, ancillaries and consumables	194,304,030	176,205,169	18,098,861
Accumulated depreciation of raw materials, ancillaries and consumables	(2,721,754)	(2,627,477)	(94,277)
Raw materials, ancillaries and consumables (net value)	**191,582,276**	**173,577,692**	**18,004,584**
Work-in-process and semi-finished goods	2,219,729	2,271,944	(52,215)
Accumulated depreciation for work-in-process and semi-finished goods	(1,200,000)	(700,000)	(500,000)
Work-in-process and semi-finished goods (net value)	**1,019,729**	**1,571,944**	**(552,215)**
Finished products and goods	113,027,102	102,677,363	10,349,739
Accumulated depreciation of finished products and goods	(17,901,760)	(14,540,640)	(3,361,120)
Finished products and goods (net value)	**95,125,342**	**88,136,723**	**6,988,619**
Total	**287,727,347**	**263,286,359**	**24,440,988**
Advance payments	**876,015**	**444,230**	**431,785**
Overall total	**288,603,362**	**263,730,589**	**24,872,773**

Inventories of raw materials at 31 December 2020 increased at the level of the green coffee component, in terms of both quantity (by approximately 9,000 tonnes) and value (by approximately €17 million).
Inventories of packaging grew by approximately €1 million compared to the previous year.
Inventories at 31 December 2020 were recognised net of an inventory write-down provision totalling €21,823,514, allocated to account for obsolescence and slow turnover relating to vending systems and spare parts, advertising materials, plant spares and packaging, also linked to the decline in Away From Home consumption due to the Covid-19 pandemic. During the year, the inventory write-down provision decreased by €5,411,973 due to disposal and scrapping of assets, against increases of €9,367,370.

Receivables

The following table shows movements of receivables and their adjustments during the year and the balance at 31 December 2020:

	Original cost 31.12.2019	Increases (decreases)	Original cost 31.12.2020	Accumulated depreciation at 31.21.19	Provisions	Uses	Accumulated depreciation at 31.21.20	Expected realisable value at 31.12.2020
Trade receivables	123,917,783	(15,488,371)	108,429,412	4,780,047	2,839,083	1,240,188	6,378,942	102,050,470
Receivables from subsidiaries	265,612,265	(11,715,885)	253,896,380	-	-	-	-	253,896,380
Receivables from related parties	194,236	(177,727)	16,509	-	-	-	-	16,509
Receivables from parent companies	12,526,654	(12,526,654)	-	-	-	-	-	-
Tax receivables	12,958,553	(3,983,390)	8,975,163	-	-	-	-	8,975,163
Deferred tax assets	30,873,507	10,580,321	41,453,828	-	-	-	-	41,453,828
Other receivables	14,433,753	(5,449,989)	8,983,764	-	-	-	-	8,983,764
Total	**460,516,751**	**(38,761,695)**	**421,755,056**	**4,780,047**	**2,839,083**	**1,240,188**	**6,378,942**	**415,376,114**

All receivables at 31 December 2020 are due within the next financial year.
An adjustment provision totalling €6,378,942 was made at the end of the year 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	56,840,499	27,877,984	12,330,629	660,126		4,341,232	102,050,470
Receivables from subsidiaries	9,029,903	177,087,133	25,271,024	28,091,631	11,749,408	2,667,281	253,896,380
Receivables from related parties	16,509	-	-	-	-	-	16,509
Receivables from parent companies	-	-	-	-	-	-	-
Tax receivables	6,098,232	2,763,657			113,274		8,975,163
Deferred tax assets	41,453,828	-	-	-	-	-	41,453,828
Other receivables	4,313,823	549,955	385,131	3,606,892	-	127,963	8,983,764
Total	**117,752,794**	**208,278,729**	**37,986,784**	**32,358,649**	**11,862,682**	**7,136,476**	**415,376,114**

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Receivables from subsidiaries and associates refer to the following companies:

	31.12.2020	31.12.2019	Changes
Trade receivables:			
Direct subsidiaries			
Lavazza Argentina S.A.	688,116	552,714	135,402
Lavazza Australia Pty Ltd	11,494,547	8,251,192	3,243,355
Lavazza Coffee (UK) Ltd	24,677,672	25,934,379	(1,256,707)
Lavazza Deutschland G.m.b.H.	58,117,946	50,339,111	7,778,835
Lavazza do Brasil Ltda	1,435,819	1,655,566	(219,747)
Lavazza France S.a.s.	-	21,106,738	(21,106,738)
Lavazza Kaffee G.m.b.H.	3,773,000	5,256,799	(1,483,799)
Lavazza Maroc S.a.r.l.	3,867	-	3,867
Lavazza Netherlands B.V.	13,758	28,764	(15,006)
Lavazza Premium Coffees Co.	22,807,852	29,353,076	(6,545,224)
Lavazza Spagna S.L.	30,552	19,734	10,818
Lavazza Sweden AB	2,143,735	3,845,086	(1,701,351)
Carte Noire S.a.s	100,814,664	100,000,327	814,337
Kicking Horse Coffee Co. Ltd	424,129	152,628	271,501
Merrild Kaffe ApS	4,800,162	957,898	3,842,264
Cofincaf S.p.A.	85,165	87,596	(2,431)
Nims S.p.A.	8,295,110	8,412,415	(117,305)
Controlled by the same parent company			
Lea S.r.l.	338	15,430	(15,092)
Lavazza Eventi S.r.l.	-	178,512	(178,512)
Indirect subsidiaries			
Carte Noire Operations S.a.s	101,080	125,349	(24,269)
Fresh & Honest Café Ltd	508,498	699,249	(190,751)
Lavazza Australia OCS Pty Ltd	-	1,603,461	(1,603,461)
Lavazza Professional France	59,559	25,444	34,115
Lavazza Professional Germany G.m.b.H.	324,869	129,476	195,393
Lavazza Professional Japan GK	30,980	13,606	17,374
Lavazza Professional NA LLC	633,247	264,668	368,579
Lavazza Professional UK Ltd	410,052	160,417	249,635
Lavazza Professional UK Operating Services Ltd	183,300	-	183,300
Total trade receivables	241,858,017	259,169,635	(17,311,618)
Financial receivables:			
Subsidiaries			
Lavazza Australia Pty Ltd	53,195	134,095	(80,900)
Lavazza Australia OCS Pty Ltd	201,665	200,966	699
Lavazza France S.a.s.	4,000,000	-	4,000,000
Lavazza Professional France	2,907,810	504,004	2,403,806
Lavazza Professional Holding EU S.r.l.	594,566	5,469,407	(4,874,841)
Lavazza Professional Holding NA Inc	4,226,403	50,044	4,176,359
Caffemotive S.r.l.	360	-	360
Cofincaf S.p.A.	54,702	278,056	(223,354)
Controlled by the same parent company			
Lea S.r.l.	16,171	294	15,877
Total financial receivables	12,054,872	6,636,866	5,418,006
Total receivables from subsidiaries	253,912,889	265,806,501	(11,893,612)

In order to optimise the Group's treasury management, Luigi Lavazza S.p.A. continued to implement its cash-pooling system including the companies based in the United Kingdom and in Austria.
Receivables of a financial nature from subsidiaries refer to the portion of the interest accrued at 31 December 2020 on loans issued to subsidiaries and carried partly among financial assets and partly among the positive balances of the current accounts of centralised treasury.
Tax receivables of €8,975,163 may be broken down as follows:

- VAT receivables of €4,546,888 from Italian and foreign revenue authorities in connection with direct identification for VAT purposes in the countries concerned;
- €4,432,452 receivable chiefly 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, with the research and development credit introduced by the 2015 Stability Law (Law No. 190-2014) and credit for advertising investments pursuant to Article 57-*bis* of Decree-Law No. 50/2017 as amended by Decree-Law No. 34/2020 ("Relaunch Decree").

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" amounted to €8,983,764 and refers primarily to advances to suppliers of €4,794,235 and a time deposit for the trading of listed hedging derivative instruments of €3,563,153.

Current financial assets

Derivative assets

The item includes the positive fair value of outstanding derivatives at 31 December 2020 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 133,649,936	Exchange rate risk	905,910	Sales
EUR 91,555,013	Commodity risk	14,391,309	Purchases of green coffee
Total		**15,297,219**	

The following table shows movements for the year:

	31.12.2020	31.12.2019	Changes
Derivatives to hedge exchange-rate risk	905,910	577,208	328,702
Derivatives to hedge commodity risk	14,391,309	23,634,350	(9,243,041)
Total	**15,297,219**	**24,211,558**	**(8,914,339)**

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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:

	31.12.2020	31.12.2019	Changes
Bank accounts	152,854,481	217,961,421	(65,106,940)
Post office accounts	528,823	1,066,892	(538,069)
Foreign currency accounts	25,777,722	28,267,583	(2,489,861)
Cash and valuables on hand	144,347	58,362	85,985
Total	**179,305,373**	**247,354,258**	**(68,048,885)**

For the analysis of the main cash flows that generated a €68 million decline in this item compared to the previous year reference should be made to the Statement of Cash Flows.
Foreign currency accounts consist of USD 16,416,312.21 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, and of GBP 11,147,598.49 funded by cash flows arising from the cash pooling arrangements between Lavazza S.p.A. and its UK subsidiaries (Lavazza Coffee UK Limited, Lavazza Professional UK Limited, Lavazza Professional Operating Services Limited) and any collections of receivables from the said subsidiaries.

Prepayments and accrued income

The item consists of the following:

	31.12.2020	31.12.2019	Changes
Prepayments:			
of lease contracts	20,459,573	21,904,803	(1,445,230)
of advertising expenses	5,379,309	8,015,602	(2,636,293)
of software leases	1,359,532	1,973,622	(614,090)
of maintenance contracts	801,390	413,312	388,078
of insurance premiums	342,353	307,220	35,133
of derivatives	227,565	302,960	(75,395)
Other	149,254	742,569	(593,315)
Total prepayments	**28,718,976**	**33,660,088**	**(4,941,112)**
Total prepayments and accrued income	**28,718,976**	**33,660,088**	**(4,941,112)**

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: €1,617,984 within one year, €5,857,626 between 1 and 5 years and €12,983,963 beyond 5 years.

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 (the difference between the spot rate/price on the date of execution of the contract and the relevant contractual forward rate/price) and the time value of derivative contracts hedging against foreign exchange and commodity risks in place at 31 December 2020.

The amounts in question will be fully charged through profit or loss when the hedged costs are recognised.

Negative change in time value of derivatives

Notional value	Underlying financial risk	Change in time value	Hedged asset / liability
EUR 34,774,854	Exchange rate risk	13,059	Sales
EUR 42,234,409	Exchange rate risk	152,782	Sales
EUR 1,250,069	Commodity risk	61,724	Purchases of green coffee
Total		**227,565**	

Prepayments on negative change in time value of derivatives

	31.12.2020	31.12.2019	Changes
Forward points based on spot exchange rate	13,059	8,223	4,836
Time value of options on exchange rates	152,782	294,737	(141,955)
Time value of options on commodities	61,724	-	61,724
Total	**227,565**	**302,960**	**(75,396)**

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 located in Baranzate (in the province of Milan) and an office building located in Turin for which the respective sale agreements were signed for a total of €8,386,337.

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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
Capital	25,000,000		-
Capital reserves			
Share premium account	223,523	A B C	223,523
revaluation reserves	426,580,270	A B C	426,580,270
Reserve from profits			
legal reserve	5,000,000	B	-
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	7,907,933	B	-
- Merger surplus reserve	56,953,074	A B C	56,953,074
Retained earnings	1,487,239,948	A B C	1,487,239,948
Negative reserve for treasury shares	(17,732,533)	restricted	(17,732,533)
Hedge reserve for expected cash flows	(6,451,155)	restricted	(6,451,155)
Total	**2,189,282,049**		**2,151,374,116**
Non-distributable quota* **			**4,472,424**
Amount available for distribution			**2,146,901,692**

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”.

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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):

	31.12.2020
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
Re. Law 104/20	64,858,842
Total revaluation reserves	**426,580,270**

* 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).

At the end of the year, the company decided to take the opportunity, offered to corporations and commercial entities that do not adopt international accounting standards in the preparation of financial statements, of revaluing its own main tangible fixed assets belonging to the plant and machinery category in compliance with the provisions of Article 110 of Decree Law No. 104 of 14 August 2020 (so-called 'August Decree'), converted into Law No. 126 of 13 October 2020 (Italian Official Journal No. 253 of 13 October 2020, Ordinary Supplement No. 37), in force since 14 October 2020.
The increase in the revaluation reserve of €64,858.842 is given by the fixed asset revaluation balance of €66,864,786 net of the 3% substitutive tax of €2,005,944.
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.

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 that it was decided not to present in the financial statements:

	31.12.2018	Increases for fair value changes	Decreases for fair value changes	Deferred tax liabilities	Deferred tax assets	31.12.2019	Increases for fair value changes	Decreases for fair value changes	Deferred tax liabilities	Deferred tax assets	31.12.2020
Derivatives to hedge exchange-rate risk	3,735,975	95,177	(5,232,758)	-	212,713	(1,188,893)	3,684,219	(18,669,151)	-	4,417,249	(11,756,576)
Derivatives to hedge commodity risk	(17,194,693)	7,125,340	32,107,494	(4,291,383)	(6,656,841)	11,089,917	5,328,323	(3,798,355)	(3,520,948)	-	9,098,937
Derivatives to hedge interest-rate risk	(1,395,942)	(2,618,824)	(363,895)	-	564,361	(3,814,299)	27,346	(1,204,515)	-	1,197,952	(3,793,516)
Total	**(14,854,660)**	**4,601,693**	**26,510,841**	**(4,291,383)**	**(5,879,767)**	**6,086,725**	**9,039,888**	**(23,672,021)**	**(3,520,948)**	**5,615,201**	**(6,451,155)**

At 31 December 2020, €6,451,155 of higher hedging costs that will have an impact in 2021 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.

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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
Balances at 31/12/2018	25,000,000	223,523	361,721,428	5,000,000	261,514,063	(14,854,660)	1,416,449,785	57,786,500	(17,732,533)	2,095,108,107
Allocation of profit for the year										
-allocation of dividends (€ 1.56 per share)	-	-	-	-	-	-	-	(35,100,003)	-	(35,100,003)
- other allocations	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-
-increases	-	-	-	-	-	20,941,386	22,686,497	106,186,603	-	149,814,486
-decreases	-	-	-	-	-	-	-	(22,686,497)	-	(22,686,497)
-reclassification	-	-	-	-	-	-	-	-	-	-
Result for the previous year	-	-	-	-	-	-	-	-	-	-
Balances at 31/12/2019	25,000,000	223,523	361,721,428	5,000,000	261,514,063	6,086,726	1,439,136,282	106,186,603	(17,732,533)	2,187,136,092
Allocation of profit for the year										
-allocation of dividends (€ 2.23 per share)	-	-	-	-	-	-	-	(50,175,004)	-	(50,175,004)
- other allocations	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-
-increases	-	-	64,858,842	-	7,907,933	-	48,103,666	91,470,155	-	212,340,596
-decreases	-	-	-	-	-	(12,537,881)	-	(56,011,599)	-	(68,549,480)
-reclassification	-	-	-	-	-	-	-	-	-	-
Result for the previous year	-	-	-	-	-	-	-	-	-	-
Balances at 31/12/2020	25,000,000	223,523	426,580,270	5,000,000	269,421,996	(6,451,155)	1,487,239,948	91,470,155	(17,732,533)	2,280,752,204

During the year, the retained earnings reserve increased due to the undistributed share of the profit from the previous year of €48,103,666.

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Provisions for risks and charges

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

	31.12.2019	Effect of hedging derivatives	Reclassifi-cation	Provisions for the year	Uses - Releases for the year	31.12.2020
Provisions for taxes, including deferred:						
provision for taxes	2,900,000	-	-	500,000	(1,980,000)	1,420,000
provision for deferred tax liabilities	7,174,201	(1,971,058)	-	655,891	(1,876,728)	3,982,306
Total provisions for taxes, including deferred	**10,074,201**	**(1,971,058)**	**-**	**1,155,891**	**(3,856,728)**	**5,402,306**
Other provisions:						
provision for legal issues	23,000,331	-	(9,000,000)	3,824,894	(5,386,391)	12,438,834
provision for guarantees and endorsements	4,971,615	-	-	1,189,340	(107,229)	6,053,726
provision for agents' customer compensation	2,974,277	-	-	243,110	(422,513)	2,794,874
provision for future risks and charges	12,174,675	-	9,000,000	7,823,754	(2,809,167)	26,189,262
provision for sundry personnel costs	30,111,139	-	-	27,392,318	(12,557,510)	44,945,947
fund setting up sweepstays	-	-	-	50,000	-	50,000
provision for restructuring	139,230	-	-	713,822	(139,230)	713,822
derivative liabilities	12,421,805	7,542,221	-	-	-	19,964,026
Total other provisions	**85,793,072**	**7,542,221**	**-**	**41,237,238**	**(21,422,040)**	**113,150,491**
Total provisions	**95,867,273**	**5,571,163**	**-**	**42,393,129**	**(25,278,768)**	**118,552,797**

The provision for taxes increased during the year by €500,000 in relation with an assessment carried out for the 2015 tax period.
The decrease of €1,980,000 refers 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, already agreed, had yet to be paid by the Company as at 31 December 2020 but, as they are a certain liability, they have been classified among "tax payables".
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 legal issues 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 reclassification during the year of €9,000,000 to the benefit of the provision for future risks and charges derives from the transformation of the litigation risk linked to the change in the distribution model of the Company's products on national and international markets, into a risk connected to the new business model adopted. This provision was finally adjusted at the year-end based on the estimated risk through a release of €2,800,000.

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 who are 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.

In addition to the aforesaid reclassification, the provision for future risks and charges increased during the year to take account of the risks related to the recoverability of investments made in the Away From Home coffee consumption channel and particularly in the Ho.Re.Ca. channel, severely impacted by the restrictive measures imposed by the various Ministerial Decrees to combat the Covid-19 pandemic that forced establishments to close for a good part of the current year.

At 31 December 2020, the item "provision for sundry personnel costs" included the accruals and uses for employee bonuses and incentives.

The provision for charges for prize competitions represents liabilities arising from prize competitions organised for the Company's customers, but for which the amount and settlement date were still unknown at the reporting date.

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.

The item "derivative liabilities" includes the fair value of the derivatives outstanding at 31 December 2020.

The following table provides a detailed description:

	Notional value	Underlying financial risk	Fair value	Hedged asset / liability
Current derivative liabilities				
on exchange rates	EUR 367,971,758	Exchange rate risk	14,189,426	Purchases of green coffee
on commodities	EUR 9,517,928	Commodity risk	85,923	Purchases of green coffee
Total			**14,275,349**	
Non-current derivative liabilities				
on exchange rates	EUR 25,444,402	Exchange rate risk	193,620	Sales
on commodities	-	Commodity risk	-	Purchases of green coffee
on interest rates	EUR 465,000,000	Interest rate risk	5,495,057	Loan
Total			**5,688,677**	
Total			**19,964,026**	

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 logistics 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 into a fixed-rate loan in euros 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.

The following table shows the movements in the year:

	31.12.2020	31.12.2019	Changes
Current derivative liabilities			
Derivatives to hedge exchange-rate risk	14,189,426	1,572,546	12,616,880
Derivatives to hedge commodity risk	85,923	5,129,590	(5,043,667)
Derivatives to hedge interest-rate risk	-	-	-
Non-current derivative liabilities			
Derivatives to hedge exchange-rate risk	193,620	12,998	180,622
Derivatives to hedge commodity risk	-	-	-
Derivatives to hedge interest-rate risk	5,495,057	5,706,671	(211,614)
Total	**19,964,026**	**12,421,805**	**7,542,221**

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Employee termination indemnities

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

Balance at 31.12.2019 after deduction of advance payment tax ex lege 662/96	**13,715,649**
Use of indemnities paid in the year	(1,089,115)
Advances	(208,582)
Revaluation of the year	160,678
Balance at 31.12.2020	**12,578,630**

Employee termination indemnities at 31 December 2020 reflected accrued indemnities due to employees until the date they choose a supplemental pension scheme. This amount will be eliminated with the payments that will take place when employment relationships terminate or in case of any advances made as per law.

In compliance with Legislative Decree No. 124/93 and subsequent company agreements, €3,684,948 were allocated to the following entities for financing supplemental pension schemes:

Description	Currency	Amount
Alifond	EUR	1,708,427
Fon.te.	EUR	262,752
Previndai	EUR	1,328,850
Open-ended funds	EUR	384,918
Total	**EUR**	**3,684,948**

Liabilities

Liabilities at 31 December 2020 were broken down as follows:

	31.12.2020	31.12.2019	Changes
Payables to banks			
- due within one year	155,130,600	125,286,584	29,844,016
- due after one year	309,308,816	463,753,017	(154,444,201)
Advance payments	992,830	632,381	360,449
Trade payables	203,294,883	248,612,905	(45,318,022)
Payables to subsidiaries	125,905,797	112,280,679	13,625,118
Payables to related companies	978,330	2,456,942	(1,478,612)
payables to parent company	10,199,264	-	10,199,264
Tax payables	8,863,397	3,758,996	6,440,268
Social security liabilities	5,878,681	5,741,593	3,121,804
Other liabilities	58,297,454	46,654,146	(40,775,465)
Total	**878,850,052**	**1,009,177,243**	**(178,425,381)**

The item “payables to banks” amounted to €464.4 million and includes €64.4 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 €125 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	464,439,416	-	-	-	-	-	464,439,416
Advance payments	207,764	14,045	76,614	2,515	-	691,892	992,830
Trade payables	164,636,270	25,418,736	5,426,596	1,155,139	346,153	6,311,989	203,294,883
Payables to subsidiaries	5,649,148	110,087,983	7,519,727	555,913	1,276,557	816,469	125,905,797
Payables to related companies	978,330	-	-	-	-	-	978,330
Payables to the Parent Company	10,199,264	-	-	-	-	-	10,199,264
Tax payables	8,863,118	-	279	-	-	-	8,863,397
Social security liabilities	5,878,681	-	-	-	-	-	5,878,681
Other liabilities	37,711,922	7,331,535	3,091,066	6,264,215	-	3,898,716	58,297,454
Total	**698,563,913**	**142,852,299**	**16,114,282**	**7,977,782**	**1,622,710**	**11,719,066**	**878,850,052**

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The following table provides a breakdown of payables to subsidiaries:

	31.12.2020	31.12.2019	Changes
Trade payables:			
Direct subsidiaries			
Lavazza Australia Pty Ltd	482,943	355,255	127,688
Lavazza Coffee (UK) Ltd	37,040	349,037	(311,997)
Lavazza Deutschland G.m.b.H.	159,829	21,255	138,574
Lavazza do Brasil Ltda	5,245	26,927	(21,682)
Lavazza France S.a.s.	1,894,161	101,161	1,793,000
Lavazza Kaffee G.m.b.H.	27,361	16,046	11,315
Lavazza Maroc S.a.r.l.	80,792	83,407	(2,615)
Lavazza Netherlands B.V.	50,807	81,003	(30,196)
Lavazza Premium Coffees Co.	550,668	460,604	90,064
Lavazza Spagna S.L.	662,023	169,459	492,564
Lavazza Trading (Shenzhen) Co.Ltd	545,484	546,756	(1,272)
Carte Noire S.a.s	3,532,665	496,929	3,035,736
Cofincaf S.p.A.	456,549	395,905	60,644
Kicking Horse Coffee Co. Ltd	-	34,027	(34,027)
Merrild Kaffe ApS	164,110	1,810,476	(1,646,366)
Nims S.p.A.	800	2,961	(2,161)
Indirect subsidiaries			
Lavazza Australia OCS Pty Ltd	793,614	-	793,614
Lavazza Professional UK Ltd	7,236	-	7,236
Carte Noire Operations S.a.s	4,848,094	5,041,366	(193,272)
Fresh & Honest Café Ltd	190,193	135,209	54,984
Controlled by the same parent company			
Lea S.r.l.	4,380	11,039	(6,659)
Lavazza Eventi S.r.l.	49,936	126,689	(76,753)
Chili S.p.A.	126,285	3,294	122,991
Total trade payables	14,670,215	10,268,805	4,401,410
Financial payables:			
Direct subsidiaries			
Lavazza Coffee (UK) Ltd	5,100,668	-	5,100,668
Lavazza Deutschland G.m.b.H.	34,023,081	33,510,308	512,773
Lavazza France S.a.s.	6,830,015	25,129,723	(18,299,708)
Lavazza Kaffee G.m.b.H.	2,392,016	-	2,392,016
Lavazza Professional Holding EU S.r.l.	1,488,744	-	1,488,744
Cofincaf S.p.A.	775,171	14,293	760,878
Carte Noire S.a.s	48,672,145	38,114,995	10,557,150
Nims S.p.A.	2,927,883	2,743,902	183,981
Indirect subsidiaries			
Lavazza Professional Germany G.m.b.H.	3,002,636	999,915	2,002,721
Lavazza Professional UK Operating Services Ltd	1,587,450	-	1,587,450
Lavazza Professional UK Ltd	787,334	-	787,334
Carte Noire Operations S.a.s	3,829,041	1,639,761	2,189,280
Controlled by the same parent company			
Lavazza Entertainment S.r.l.	492,798	484,529	8,269
Lavazza Eventi S.r.l.	304,930	1,125,493	(820,563)
Lea S.r.l.	-	705,897	(705,897)
Total financial payables	**112,213,912**	**104,468,816**	**7,745,096**
Total payables to subsidiaries	**126,884,127**	**114,737,621**	**12,146,506**

The financial payables shown in the table refer to the negative balances of the Company's cash pooling system in which various Group companies participate.

Tax payables consist of the following:

	31.12.2020	31.12.2019	Changes
Foreign value-added tax	279	1,301	(1,022)
Income tax to be paid as withholding agents	3,098,194	3,112,535	(14,341)
IRAP (regional production tax)	1,684,182	537,311	1,146,871
IRES (corporate income tax)	1,980,000	-	1,980,000
Other taxes	2,100,742	107,849	1,992,893
Total	**8,863,397**	**3,758,996**	**5,104,401**

The item "other liabilities" consists of the following:

	31.12.2020	31.12.2019	Changes
Trade discounts payable	38,036,554	22,629,426	15,407,128
Payables to personnel	12,579,634	12,924,587	(344,953)
Nims warranty withholding	-	9,978,538	(9,978,538)
Withholding warranty caffemotive	619,907	-	619,907
Deposits received from third parties	511,843	506,870	4,973
Sundry trade payables	452,912	485,396	(32,484)
Financial debts	6,020,066	-	6,020,066
Other	76,538	129,329	(52,791)
Total	**58,297,454**	**46,654,146**	**11,643,308**

The item “trade discounts payable” refers to credit notes to be issued to customers who reached the contractually established volume or sales targets during the year.
Payables to personnel relate to the balance of unused holiday and other leaves accrued during the year and production bonuses, partly included in the company welfare programme.
Financial payables, amounting to €6,020,066, refer to the reclassification of a portion of the cash and cash equivalents deposited at the broker in respect of the positive or negative margin of financial derivatives traded on regulated markets and held by the Company at the year-end.
The item “withholding warranty Caffemotive” refers to the sum withheld from the payment for shares in the company Caffemotive S.r.l., provided for in the acquisition contract, which will be settled in 2021 once the related conditions precedent have been fulfilled.

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Accruals and deferred income

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

	31.12.2020	31.12.2019	Changes
Accruals:			
of interest	1,592	-	1,592
14th month salary	3,561,736	3,439,095	122,641
Total accruals	**3,563,328**	**3,439,095**	**124,233**
Deferred income:			
on tax relief for plant	2,556,592	1,725,476	831,116
on franchising entry fees	82,188	82,188	-
on derivatives	129,843	62,065	67,778
Total deferred income	**2,768,623**	**1,869,729**	**898,894**
Total accruals and deferred income	**6,331,951**	**5,308,824**	**1,023,127**

The item "deferred income on tax relief for plant" 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 positive change reported by forward points (the difference between the spot rate/price on the date of execution of the contract and the relevant contractual forward rate/price) and the time value of derivative contracts hedging against foreign exchange and commodity risks in place at 31 December 2020.

The amounts in question will be fully charged through 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 97,749,797	Exchange rate risk	52,943	Sales
EUR 593,644	Commodity risk	76,900	Purchases of green coffee
		129,843	

Deferred income on positive change in time value of derivatives

	31.12.2020	31.12.2019	Changes
Time value of options on exchange rates	52,943	45,417	7,526
Time value of options on commodities	76,900	16,648	60,252
Total	**129,843**	**62,065**	**67,778**

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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 2020	Year 2019	Changes
Sales of coffee and food products	1,437,200,327	1,415,412,370	21,787,957
Sales of coffee machines and spare parts	64,065,767	74,631,611	(10,565,844)
Sales of advertising material	6,740,684	10,518,840	(3,778,156)
Sales of packaging	804,625	73,174	731,451
Sales of other products	2,109,574	3,404,947	(1,295,373)
Sales of raw materials and other ancillaries	10,075,356	8,313,500	1,761,856
Total	**1,520,996,333**	**1,512,354,442**	**8,641,891**

The Directors' Single 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	431,223,079	160,616,303	591,839,382
Other European countries	57,825,954	78,329,523	136,155,477
USA	45,727,190	462,100	46,189,290
Rest of the world	22,681,472	46,316,953	68,998,425
Total sales abroad	**557,457,695**	**285,724,879**	**843,182,574**
Total sales Italy	**34,712,976**	**643,100,783**	**677,813,759**
Total	**592,170,671**	**928,825,662**	**1,520,996,333**

Other income and revenues

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

	Year 2020	Year 2019	Changes
Grants	2,262,988	4,137,504	(1,874,516)
Rentals	1,247,939	2,933,900	(1,685,961)
Ordinary capital gains	239,276	202,467	36,809
Royalties for the use of our trademarks	1,318,986	2,205,284	(886,298)
Charge-backs to Group companies	86,493,518	82,777,280	3,716,238
Income from compensation for damages	513,066	977,659	(464,593)
Contingent income	9,201,268	3,513,892	5,687,376
Other	2,639,534	1,884,384	755,150
Total	**103,916,575**	**98,632,370**	**5,284,205**

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

Pursuant to Article 3-*quater* of Decree-Law No. 135/2018, for information on grants received, reference should be made to the Italian National State Aid Registry, 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 National State Aid Registry, 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

Dispensing subject	Amount received (€)	Description
FONDIMPRESA	9,983	Training Plan
GSE	204,514	Photovoltaic system incentives DM 19/02/07 New Energy Account
---	932,044	Bonus Research & Development ex art 1 paragraph 35 Law 190/2014
FINPIEMONTE	63,875	Contribution of industrial projects
---	200,000	Advertising contribution
---	28,297	Sanitization contribution
Total	**1,438,712**	

Capital grants

Dispensing subject	Amount received (€)	Description
---	336,943	Bonus Research & Development ex art 1 paragraph 35 Law 190/2014
---	418,358	Bonus for investments in new capital goods Ateco 28
---	68,974	Industry Contribution 4.0
Total	824,275	

Rentals refer to payments for coffee, vending and OCS machines installed at 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.
Charge-back of costs to subsidiaries of €86,493,518 refer to promotional, transport, administrative and IT services.
The item "contingent income" refers primarily to grants for promotional activities and costs recognised in previous years and found not to be due during the year. Moreover, the provision for future risks and charges was released for €2.8 million following the updating and redefinition of hedged risk.

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

	Net revenues	Other income	Total
Direct subsidiaries			
Lavazza Argentina S.A.	310,043	95,247	405,290
Lavazza Australia Pty Ltd	22,053,039	3,545,239	25,598,278
Lavazza Capital S.r.l.	-	140,000	140,000
Lavazza Coffee (UK) Ltd	57,825,954	9,461,506	67,287,460
Lavazza Deutschland G.m.b.H.	117,924,264	20,276,764	138,201,028
Lavazza do Brasil Ltda	78	-	78
Lavazza France S.a.s.	21,045,904	1,514,346	22,560,250
Lavazza Kaffee G.m.b.H.	8,104,948	1,809,084	9,914,032
Lavazza Maroc S.a.r.l.	-	3,867	3,867
Lavazza Netherland B.V.	-	13,758	13,758
Lavazza Premium Coffees Co.	45,727,190	14,961,783	60,688,973
Lavazza Professional Holding EU S.r.l.	-	653,540	653,540
Lavazza Professional Holding NA	-	4,180,588	4,180,588
Lavazza Spagna S.L.	-	10,819	10,819
Lavazza Sweden AB	5,758,284	1,243,093	7,001,377
Caffemotive s.r.l.	-	360	360
Carte Noire S.a.s.	230,564,885	25,722,312	256,287,197
Cofincaf S.p.A.	5,359	91,235	96,594
Kicking Horse Coffee Co. Ltd	-	424,129	424,129
Merrild Kaffe ApS	47,824,794	2,412,688	50,237,482
Nims S.p.A.	34,684,998	924,088	35,609,086
Controlled by the same parent company			
Lavazza Eventi s.r.l.	18,089	274,657	292,746
Lea S.r.l.	4,530	379,423	383,953
Indirect subsidiaries			
Lavazza Professional UK Ltd	-	710,536	710,536
Lavazza Professional UK Operating Services Ltd	-	183,300	183,300
Lavazza Professional NA LLC	-	1,356,586	1,356,586
Lavazza Professional Japan	-	71,073	71,073
Lavazza Professional France	-	136,315	136,315
Lavazza Professional Germany G.m.b.H.	-	690,341	690,341
Lavazza Australia OCS Pty Ltd	33,695	499,042	532,737
Fresh & Honest Café Ltd	284,617	15,000	299,617
Carte Noire Operations S.a.s	-	202,160	202,160
Total	**592,170,671**	**92,002,879**	**684,173,550**

Costs of production

Raw materials, ancillaries, consumables and goods

Purchases for the year were broken down as follows:

	Year 2020	Year 2019	Changes
Raw materials	632,387,836	602,725,517	29,662,319
Goods	108,201,001	123,046,435	(14,845,434)
Miscellaneous ancillary material	7,997,882	6,382,933	1,614,949
Total	**748,586,719**	**732,154,885**	**16,431,834**

The cost of raw materials increased due both to higher volumes of green coffee purchased in light of the favourable market conditions and to the rise in the packaging prices and volumes.
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 2020	Year 2019	Changes
Commercial and sales costs	317,828,196	336,466,892	(18,638,696)
Ancillary purchasing and production costs	133,941,721	127,672,739	6,268,982
Other	46,385,901	56,983,661	(10,597,760)
Total	**498,155,818**	**521,123,292**	**(22,967,474)**

The decrease in commercial and sales costs can be attributed primarily to the lower costs relating to advertising and promotional services, costs of trade fairs and events, as well as costs of commissions, entertaining and hospitality and espresso machine maintenance costs.
Ancillary purchasing and production costs report an increase linked to processes outsourced to third parties and increased rental and transport expenses, offset by a reduction in costs relating to industrial utilities and advisory.
The item "other" decreased as a result of lower costs for advisory, reimbursements 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	1,665,144
Statutory Auditors' fixed remuneration	183,387
Total	**1,848,531**

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Use of third-party assets

The following table provides a detailed description:

	Year 2020	Year 2019	Changes
Property leases	8,888,765	8,791,781	96,984
Lease of software and electronic equipment	7,656,193	6,772,906	883,287
Vehicle leases	3,890,333	3,850,358	39,975
Other leases	1,235,634	1,299,931	(64,297)
Royalties for use of trademarks and patents	878,571	779,394	99,177
Total	**22,549,496**	**21,494,370**	**1,055,126**

The most significant items concern the costs of leasing instalments for the entire real-estate complex accommodating the Company's headquarters and the lease of software and hardware products.

Personnel expenses

Personnel expenses include wages, ensuing contributions, employee termination indemnities paid and the total cost of temporary employment.
The item "other personnel expenses" includes voluntary contributions for supplementary 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 2020	Headcount at 31.12.2020	Average 2019	Headcount at 31.12.2019
Executives	95	102	101	97
Managers	106	111	95	96
Middle Managers	172	186	159	157
White Collars	697	705	663	684
Travelling personnel	485	479	165	171
Blue Collars	157	158	505	496
Total	**1,712**	**1,741**	**1,688**	**1701**

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 2020	Year 2019	Changes
Provisions for risks:			
for legal charges and litigations	3,324,894	4,024,686	(699,792)
for future risks and charges	7,823,754	12,100,000	(4,276,246)
for HR litigation	500,000	-	500,000
Total provisions for risks	**11,648,648**	**16,124,686**	**(4,476,038)**
Other provisions:			
for guarantees and endorsements	1,189,340	388,382	800,958
to the prize competition fund	50,000	-	50,000
Total other provisions	**1,239,340**	**388,382**	**850,958**

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

Other operating charges

The following table shows the main components:

	Year 2020	Year 2019	Changes
Miscellaneous taxes and duties	2,546,932	2,778,856	(231,924)
Association duties	777,566	730,787	46,779
Other gifts and advertising material	3,027,747	6,213,792	(3,186,045)
Capital losses	238,844	424,948	(186,104)
Social charges	16,487,169	4,530,119	11,957,050
Other	4,420,990	2,526,218	1,894,772
Total	**27,499,248**	**17,204,720**	**10,294,528**

The main item regards donations made to recognised non-profit organisations and entities. In particular, during the year the Company took action in light of the health emergency that had struck the country, donating €10.3 million to projects supporting healthcare, schools and vulnerable groups in the Piedmont Region.
In addition, through a donation of €4.7 million, work continued on supporting projects of the Giuseppe and Pericle Lavazza Foundation, which has always played an active role in promoting and developing economic, social and environmental sustainability projects in favour of coffee-producing communities throughout the world, in addition to which during the current year it implemented projects to support local communities in tackling the Covid-19 pandemic.

The losses indicated are of a non-financial nature and arise from the sale of fixed assets. During the year, these were reclassified within profit or loss items and the previous year's value readjusted, for completeness of disclosure, increasing it by €421,341.

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Costs of production pertaining to subsidiaries were as follows:

	Costs for purchases	Costs for services	Costs for other operating expenses	Costs for financial expense	Total
Direct subsidiaries					
Lavazza Argentina S.A.	-	12,344	-	-	12,344
Lavazza Australia Pty Ltd	-	482,943	-	-	482,943
Lavazza Capital S.r.l.	-	-	-	12,568	12,568
Lavazza Coffee (UK) Ltd	32,186	31,334	-	9,707	73,227
Lavazza Deutschland G.m.b.H.	257,867	20,151	-	46,518	324,536
Lavazza do Brasil Ltda	-	27,710	-	-	27,710
Lavazza France S.a.s.	32,663	288,559	-	26,552	347,774
Lavazza Kaffee G.m.b.H.	58,925	-	-	1,031	59,956
Lavazza Maroc S.a.r.l.	-	136,367	-	-	136,367
Lavazza Netherland B.V.	-	239,894	-	-	239,894
Lavazza Premium Coffees Co.	-	583,429	-	-	583,429
Lavazza Spagna S.L.	-	492,564	-	-	492,564
Lavazza Sweden AB	11,010	-	-	-	11,010
Lavazza Trading (Shenzhen) Co.Ltd	-	1,011,362	-	-	1,011,362
Carte Noire S.a.s	68,488	3,854,712	-	70,957	3,994,157
Cofincaf S.p.A.	-	549,747	-	496,331	1,046,078
Merrild Kaffe ApS	6,633	164,110	-	-	170,743
Nims S.p.A.	1,311	1,700	-	6,830	9,841
Kicking Horse Coffee Co. Ltd	-	94,431	-	-	94,431
Check Indirect					
Lavazza Professional UK Ltd	-	7,236	-	159	7,395
Lavazza Professional UK Operating Services Ltd	-	-	-	1,721	1,721
Lavazza Professional Germany G.m.b.H.	-	-	-	3,166	3,166
Carte Noire Operations S.a.s	61,037	25,694,257	-	3,271	25,758,565
Fresh & Honest Café Ltd	10,013	-	44,971	-	54,984
Controlled by the same parent company					
Lea S.r.l.		274,108	-	256	274,364
Lavazza Eventi S.r.l.	6,795	647,845	24,826	953	680,419
Lavazza Entertainment S.r.l	-	-	-	882	882
Chili S.p.A.	-	1,487,283	-	-	1,487,283
Total	**546,928**	**36,102,086**	**69,797**	**680,902**	**37,399,713**

Financial income and expense

Financial income

The following table shows the main components:

	Year 2020	Year 2019	Changes
Income from investments			
Dividends from subsidiaries	33,053,684	41,532,409	(8,478,725)
Total	**33,053,684**	**41,532,409**	**(8,478,725)**

Dividends from subsidiaries were broken down as follows:

Currency	Amount	Company
EUR	11,000,000	Carte Noire S.a.s
EUR	6,500,000	Lavazza Deutschland G.m.b.H.
EUR	4,000,000	Lavazza France S.a.s.
EUR	3,850,585	Lavazza Premium Coffees Co.
EUR	6,704,930	Merrild Kaffe ApS
EUR	998,169	Nims S.p.A.
Total	**33,053,684**	

Other financial income was broken down as follows:

	Year 2020	Year 2019	Changes
Interest income			
on non-current receivables	3,806,850	6,691,119	(2,884,269)
from subsidiaries and associates	26,971	3,261	23,710
from companies controlled by the Parent Company	638	294	344
on bank current accounts	558,955	124,229	434,726
Total interest income	**4,393,414**	**6,818,903**	**(2,425,489)**

The item "interest income on non-current receivables" mainly refers to the interest accrued at year-end on the residual loans granted to the subsidiaries Lavazza Professional Holding North America Inc., Lavazza Professional Holding Europe S.r.l., Lavazza Australia Pty Ltd and Lavazza Australia OCS Pty for the loan granted to Caffemotive S.r.l in 2020.
The decrease compared to the previous year refers primarily to the reduction in the amount of the principal of the loan granted to the subsidiary Lavazza Professional Holding NA which reduced during the previous year.
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.

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Financial expense

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

	Year 2020	Year 2019	Changes
Interest expense			
from subsidiaries and associates	169,911	26,155	143,756
from companies controlled by the Parent Company	2,091	853	1,238
receivables from credit institutions	5,506,957	6,081,914	(574,957)
Total interest expense	**5,678,959**	**6,108,922**	**(429,963)**
Expenses and commissions			
charges from subsidiaries and associates	508,900	603,625	(94,725)
Total expenses and commissions	**508,900**	**603,625**	**(94,725)**
Total interest and financial expense	**6,187,859**	**6,712,547**	**(524,688)**

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" mainly refers to 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 2020	Year 2019	Changes
Unrealised exchange gains	18,789,328	8,549,154	10,240,174
Realised exchange gains	6,977,856	5,262,834	1,715,022
Total exchange gains	**25,767,184**	**13,811,988**	11,955,196
Unrealised exchange losses	24,106,776	641,221	23,465,555
Realised exchange losses	8,225,260	3,945,945	**4,279,315**
Total exchange losses	**32,332,036**	**4,587,166**	**27,744,870**
Net exchange gains (losses)	**(6,564,852)**	**9,224,822**	**(15,789,674)**

Value adjustments to financial assets

Value adjustments refer to:

Lavazza Argentina S.A.	(348,612)
Lavazza Netherlands B.V.	(2,598,621)
Total	**(2,947,233)**

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 2020, 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 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 €2,855,470 and €652,989, 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)	24,310,906
IRAP (regional production tax)	5,288,155
Prior years' taxes	(1,684,696)
Allocation to provision for future taxes	500,000
Deferred taxes for the year	
Provision for deferred tax assets	(14,573,375)
Reversals of deferred tax assets	7,569,345
Provision for deferred tax liabilities	-
Reversals of deferred tax liabilities	(1,876,728)
Total taxes	**19,533,607**

The accrual to the provision of €500,000 was due to taxes and related interest not yet paid by the Company as at 31 December 2020, arising from an assessment carried out for the 2015 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 2019			Year 2020							
	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	111,286,640	24.0%	26,708,794	(37,733,495)	24.0%	(9,056,039)	61,767,055	24.0%	14,824,093	135,320,200	32,476,847
Unrealised exchange losses	-	24.0%	-	-	24.0%	-	4,973,563	24.0%	1,193,655	4,973,563	1,193,655
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	1,060,366	24.0%	254,488	(4,992)	24.0%	(1,198)	198,279	24.0%	47,587	1,253,653	300,877
Cash deductible costs	-	24.0%	-	-	24.0%	-	-	24.0%	-	-	-
PREPAID IRAP TAXES											
Allocations to non-deductible/ non-material provisions	-	3.9%	-	-	3.9%	-	-	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	1,060,366	3.9%	41,354	(4,992)	3.9%	(195)	198,279	3.9%	7,733	1,253,653	48,893
Cash deductible costs	-	3.9%	-	-	3.9%	-	-	3.9%	-	-	-
Hedge reserve for expected cash flows			2,050,513			(2,050,513)			5,615,201		5,615,201
TOTAL DEFERRED TAX ASSETS			**30,873,507**			**(11,107,945)**			**21,688,270**		**41,453,832**
DEFERRED IRES TAX LIABILITIES											
Unrealised exchange gains	6,005,118	24.0%	1,441,228	(7,771,588)	24.0%	(1,865,181)	1,766,470	24.0%	423,953	-	-
Statutory / tax differences from M&As	841,549	24.0%	201,972	(41,388)	24.0%	(9,933)	-	24.0%	-	800,161	192,039
DEFERRED IRAP TAXES											
Statutory / tax differences from M&As	841,550	3.9%	32,820	(41,388)	3.9%	(1,614)	-	3.9%	-	800,162	31,206
Hedge reserve for expected cash flows			5,498,181	-		(5,498,181)			3,520,948		3,520,948
TOTAL DEFERRED TAXES			**7,174,201**			**(7,374,909)**			**3,944,901**		**3,744,193**

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	111,003,762	24.00%	26,640,903	24.00%
Higher tax charge	50,497,877		12,119,490	10.92%
of which for:				
Non-deductible taxes	1,946,391		467,134	0.42%
Non-deductible write-downs	2,947,233		707,336	0.64%
Non-deductible depreciation and amortisation	3,570,000		856,800	0.77%
Non-deductible provisions	22,060,181		5,294,443	4.77%
Other non-deductible costs	19,974,072		4,793,777	4.32%
Lower tax charge	**(60,075,555)**		**(14,418,133)**	**-12.99%**
of which for:				
Costs undeducted in previous years	-		-	0.00%
Dividends	(31,775,908)		(7,626,218)	-6.87%
Other deductible costs	(15,005,545)		(3,601,331)	-3.24%
Patent Box incentive	-		-	0.00%
Gains from tax exemption (PEX scheme)	-		-	0.00%
Contribution for economic growth (ACE)	(13,294,102)		(3,190,584)	-2.87%
Actual IRES charge	101,426,084	24.00%	24,342,260	21.93%
Energy savings			(31,354)	
Net IRES			**24,310,906**	

IRAP (regional production tax)	Taxable amount	Theoretical tax rate	Tax charge	Effective tax rate
Value of production (A-B)	**268,375,681**	**3.94%**	**10,577,229**	**3.94%**
Higher tax charge	12,221,166		481,662	0.18%
of which for:				
Costs for outsourced personnel	2,505,064		98,730	0.04%
Non-deductible depreciation and amortisation	239,306		9,432	0.00%
Other non-deductible costs	9,476,796		373,500	0.14%
Lower tax charge	**(146,420,669)**		**(5,770,735)**	**-2.15%**
of which for:				
Costs undeducted in previous years	**(4,992)**		**(197)**	**0.00%**
Use of deductible provisions	(14,521,103)		(572,306)	-0.21%
Deductible contributions and costs for personnel	(131,894,574)		(5,198,232)	-1.94%
Patent Box incentive	-		-	0.00%
Actual IRAP charge	**134,176,178**	**3.94%**	**5,288,156**	**1.97%**

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Commitments, guarantees and contingent liabilities

Third-party guarantees in our favour	*€*	*12,310,808*

This item consists of guarantees given in our favour by banks: €1,500,000 in the interest of the Ministry of Economic Development for prize contests; €3,414,261 in the interest of the Revenue Agency for the tax audit and €4,964,254 for the application for VAT reimbursement to 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; €577,020 to Customs; €688,902 for property leases; €74,000 to the Italian General Commissioner for Italy's participation to the EXPO 2020 DUBAI and referring to the sponsorship of the Italian Pavilion.

Guarantees in favour of subsidiaries	*€*	*37,046,376*

The account consists of €12,334,163 in guarantees in favour of Cofincaf S.p.A. to finance contracts with Ho.Re.Ca. customers; €24,128,235 for financing customers' purchases of vending machines for beverages and €583,978 for loans to employees.

Subsidiary for collection of credits	*€*	*16,436,306*

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

Leasing company for upcoming lease payments	*€*	*75,943,797*

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 2020 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.

Off-balance sheet arrangements

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

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

Post balance sheet events

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

Obtaining effective vaccines with limited risks makes it highly likely that the current crisis will finally be overcome during the current year. In this sense, the global economy is expected to remain weak in the short term, before the progressive immunisation of the population and the arrival of the summer season reduce the need for social distancing measures and foster economic recovery.

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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
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)

Reminding the Shareholders that the 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 €91,470,154.89, be allocated as follows: to the 22,500,002 outstanding shares a dividend of €1.47 per share, totalling €33,075,002.94 overall, and the remaining €58,395,151.95 as profit carried forward.

Turin, 24 March 2021

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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 2020

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 administrative body has thus provided access to the following documents approved on 24 March 2021 concerning the year ended 31 December 2020:

- the draft Financial Statements, including the Notes and the Statement of Cash Flow; and
- the Report on Operations.

Knowledge of the Company, assessment of risks and report on professional assignments

Regarding the activity carried out by the Board of Auditors in 2020, we point out that meetings were held remotely in order to comply with the precautionary rules resulting from the spread of the Covid-19 pandemic.

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;

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- it may be observed that in 2020 the Company operated on comparable terms to the previous year, and thus that our controls were performed on this basis, having verified that the values and results are essentially comparable with those from the previous year.

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

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

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

Activities performed

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

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

Relations with the persons operating within the above structure — directors, employees and consultants — are inspired by mutual collaboration in accordance with the roles assigned to each. For the entire year, it was determined that:

- the level of its technical preparation 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;
- as regards the ongoing crisis linked to the Covid-19 epidemic, we acknowledged that the Company has put in place the necessary measures to safeguard the health of its employees and, in any case, all those measures provided for by the regulations as they were issued, and that the Company's efficient operation has never been compromised. We have acquired

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knowledge of and overseen, insofar as within our remit, the adequacy of the organisational structure and the functioning of the administrative-accounting system, also with reference to its correct operation during the emergency period, as well as the reliability of said system in representing the operating events correctly. To this end, we obtained information from the heads of functions and examined company documents and, in this regard, we have no particular observations to report;

- in the course of our supervisory activity, as described above, we did not bring to light additional material facts that would have required mention in this report;
- we did not have to intervene due to failure to act by the governing body pursuant to Article 2406 of the Italian Civil Code;
- no complaints were received pursuant to Article 2408 of the Italian Civil Code;
- no complaints were filed pursuant to Article 2409, paragraph 7, of the Italian Civil Code.

Remarks and proposals concerning the Financial Statements and their approval

The draft Financial Statements for the year ended 31 December 2020 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;
- 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

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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;
- regarding the write-up of plant and machinery carried out pursuant to Article 110 of Decree-Law 104/2000 converted into Law No. 126 of 13 October 2020, we certify that this does not exceed the value actually attributable to these assets as determined according to a special appraisal report based on the cost method criterion; 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 administrative body for the year ended 31 December 2020 is positive at €91,470,155.

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 2020, as drafted, as well as of the allocation of the net profit for the year, as submitted to you by the administrative body.

Turin, 14 April 2021

On behalf of THE STATUTORY AUDITORS

(Gianluca FERRERO)

(Angelo GILARDI)

(Bernardo BERTOLDI)

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Building a better working world

Luigi Lavazza S.p.A.

Financial statements as at December 31, 2020

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

Building a better working world

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

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

Independent auditor's report 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, 2020, 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, 2020, 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.

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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, 2020, 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, 2020 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, 2020 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, 2021

EY S.p.A.
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

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Turin

TRANSLATED BY

Koinè - Trieste

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