LAVAZZA

TORINO, ITALIA, 1895

Annual Report **2016**

Contents

Company Officers

BOARD OF DIRECTORS

Chairman	Alberto Lavazza
Vice Chairmen	Giuseppe Lavazza Marco Lavazza
Chief Executive Officer	Antonio Baravalle
Directors	Antonella Lavazza Francesca Lavazza Manuela Lavazza Pietro Boroli Gabriele Galateri di Genola Robert Kunze-Concewitz Antonio Marcegaglia

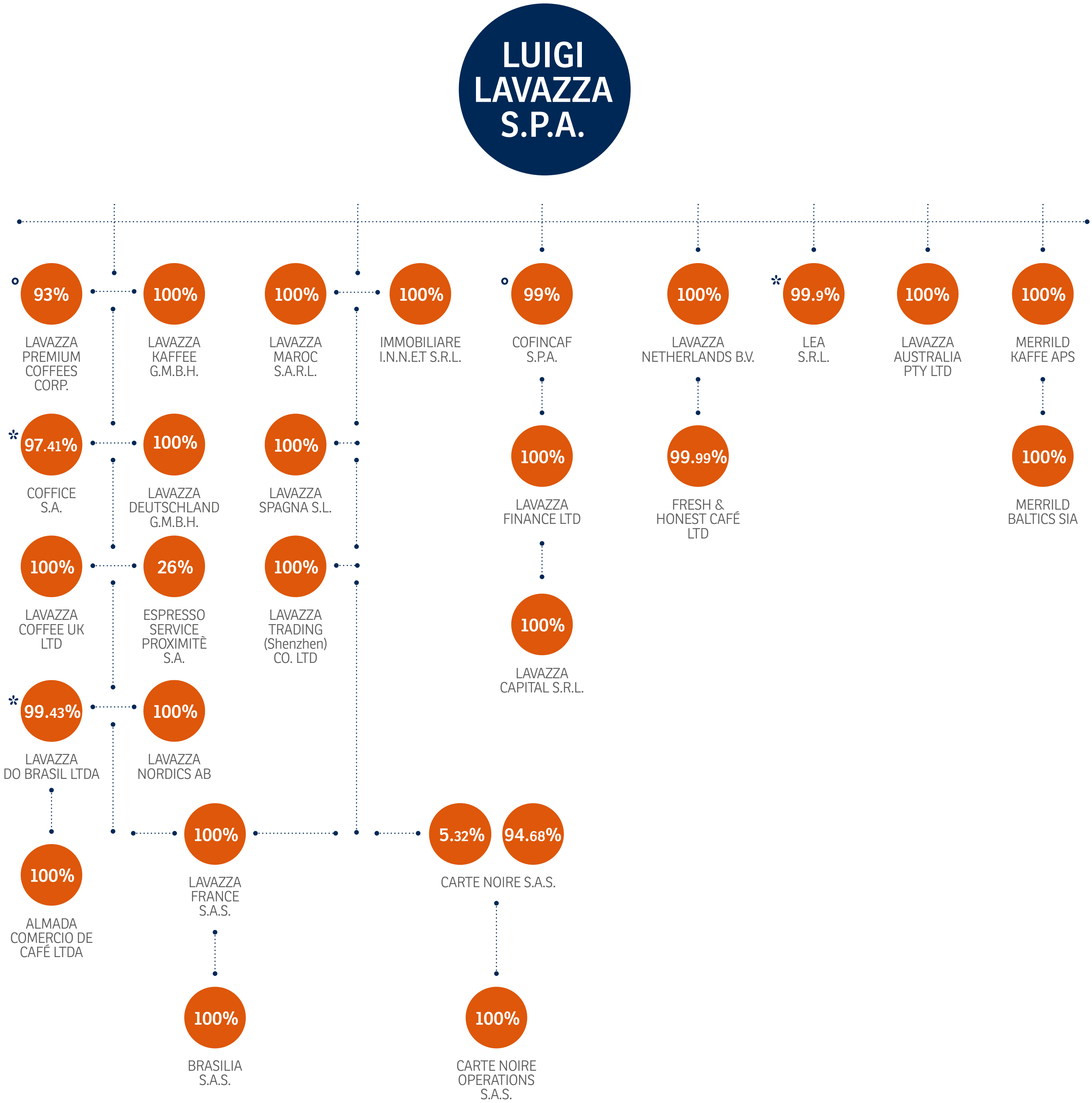
BOARD OF STATUTORY AUDITORS

Chairman	Gianluca Ferrero
Statutory Auditors	Angelo Gilardi Lucio Pasquini

INDEPENDENT AUDITORS

EY S.p.A.

Group Structure

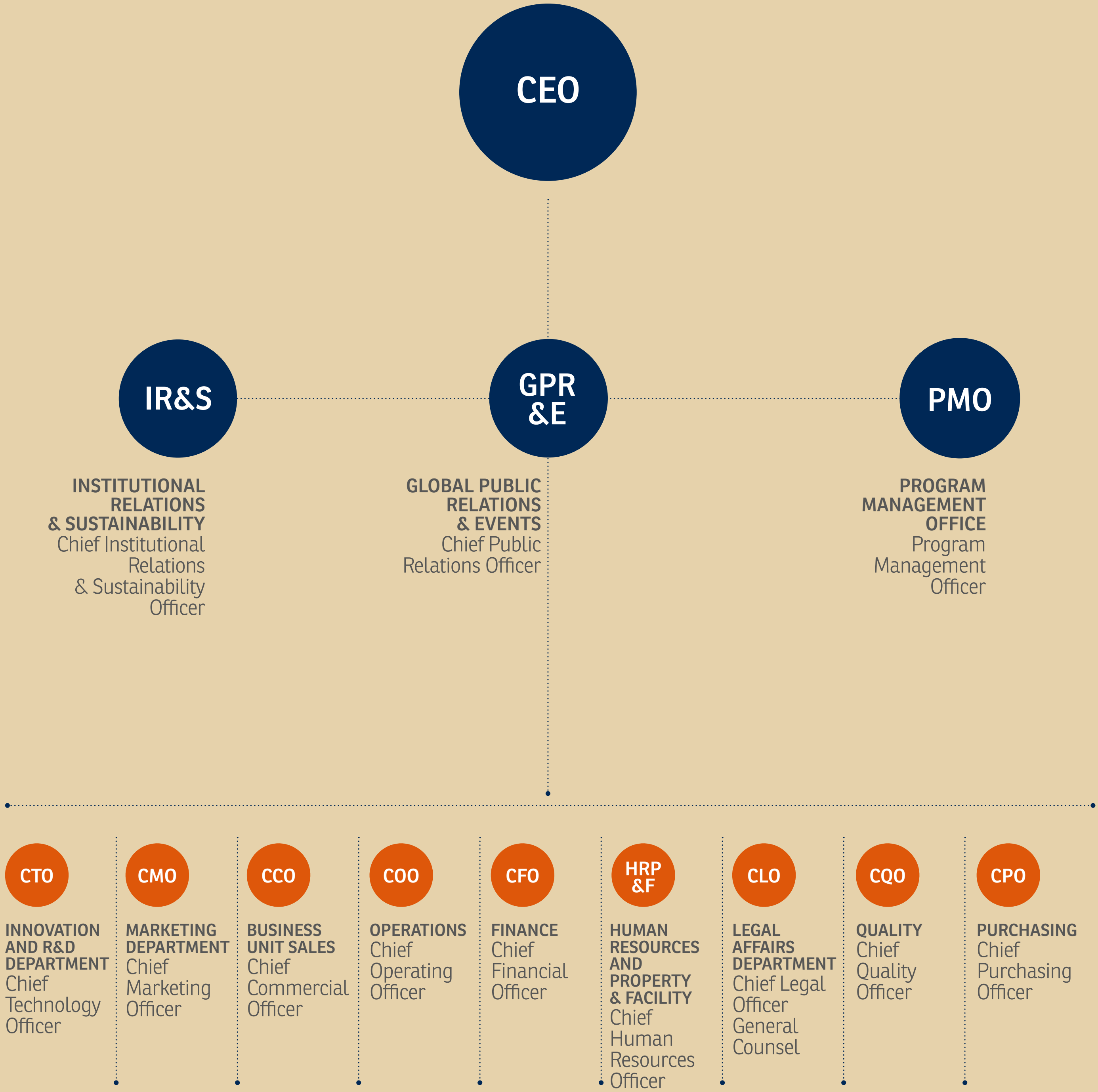


* The residual shareholding is held by Cofincaf S.p.A.

° The residual shareholding is held by Finlav S.p.A.


THE NEW LAVAZZA HEADQUARTERS – TURIN

Organisational Chart



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Consolidated Financial Statements of the Lavazza Group at 31 December 2016


THE 2017 LAVAZZA CALENDAR “WE ARE WHAT WE LIVE” - PHOTO BY DENIS ROUVRE

Consolidated Highlights

Euro million	2016	Ratio %	2015	Ratio %
Sales of goods and services	1,895.7	100.0%	1,471.4	100.0%
EBITDA	178.5	9.4%	128.9	8.8%
EBIT	61.7	3.3%	46.0	3.2%
Profit before taxes	62.1	3.3%	873.2	59.4%
Profit for the year	**82.2**	**4.3%**	**802.1**	**54.6%**
Net working capital	406.8		375.5	
Net fixed assets	1,053.9		363.7	
Total uses	**1,460.7**		**739.2**	
Net financial position	(687.5)		(1,351.1)	
Equity	2,148.2		2,090.3	
Total sources	**1,460.7**		**739.2**	
Net CAPEX	101.8		63.0	
Headcount	2,829		2,598	
ROS	3.4%		3.3%	
ROI	4.4%		6.8%	
ROE	3.8%		38.4%	

Reclassified Income Statement

Euro million	**Year 2016**	**Ratio %**	**Year 2015**	**Ratio %**	**Changes**	**Changes %**
Sales of goods and services	1,895.7	100.0%	1,471.4	100.0%	424.3	28.8%
Other income and revenues	15.0	0.8%	13.3	0.9%	1.7	12.8%
Total income and revenues	**1,910.7**	**100.8%**	**1,484.7**	**100.9%**	**426.0**	**28.7%**
Cost of sales	786.7	41.5%	633.3	43.0%	153.4	24.2%
Costs of services	686.5	36.2%	508.5	34.6%	178.0	35.0%
Other costs	52.8	2.8%	46.3	3.1%	6.5	14.0%
Total external costs	**1,526.0**	**80.5%**	**1,188.1**	**80.7%**	**337.9**	**28.4%**
Value added	**384.7**	**20.3%**	**296.6**	**20.2%**	**88.1**	**29.7%**
Personnel costs	206.2	10.9%	167.7	11.4%	38.5	23.0%
EBITDA	**178.5**	**9.4%**	**128.9**	**8.8%**	**49.6**	**38.5%**
Amortisation, depreciation and write-downs	107.9	5.7%	77.8	5.3%	30.1	38.7%
Provisions	8.9	0.5%	5.1	0.3%	3.8	74.5%
EBIT	**61.7**	**3.3%**	**46.0**	**3.2%**	**15.7**	**34.1%**
Income (expense) from equity investments	(4.4)	(0.3%)	823.7	56.0%	(828.1)	(100.5%)
Finance income (expense)	4.8	0.3%	3.5	0.2%	1.3	37.1%
Profit before taxes	**62.1**	**3.3%**	**873.2**	**59.4%**	**(811.1)**	**(92.9%)**
Income taxes	20.1	1.1%	(71.1)	(4.8%)	91.2	(128.3%)
Profit for the year	**82.2**	**4.3%**	**802.1**	**54.6%**	**(719.9)**	**(89.8%)**
Profit (loss) attributable to minority interests	0.2	0.0%	0.3	0.0%	(0.1)	0.0%
Profit (loss) attributable to the Group	82.0	4.3%	801.8	54.6%	(719.8)	(89.8%)

Reclassified Balance Sheet

	Euro million	31/12/2016	31/12/2015	Changes
	Inventories	318.9	284.5	34.4
	Trade receivables	414.8	331.4	83.4
	Receivables from subsidiaries, affiliates and Parent Company	47.2	8.5	38.7
	Deferred tax assets and tax receivables	55.1	56.8	(1.7)
	Prepayments and accrued income	26.8	18.7	8.1
A.	**Total operating assets**	**862.8**	**699.9**	**162.9**
	Advances	0.6	0.4	0.2
	Trade payables	333.3	240.4	92.9
	Payables to subsidiaries, affiliates and the Parent Company	1.5	8.8	(7.3)
	Tax and social security liabilities	36.3	18.0	18.3
	Other liabilities and deferred income	84.3	56.9	27.4
B.	**Total operating liabilities**	**456.0**	**324.5**	**131.5**
C.	**Net working capital (A-B)**	**406.8**	**375.4**	**31.4**
	Intangible assets	737.2	68.9	668.3
	Tangible assets	369.7	314.5	55.2
	Financial assets	29.4	34.9	(5.5)
D.	**Total fixed assets**	**1,136.3**	**418.3**	**718.0**
	Provisions for risks and charges	57.8	34.1	23.7
	Employee leaving indemnities	24.6	20.4	4.2
E.	**Total fixed liabilities**	**82.4**	**54.5**	**27.9**
F.	**Total fixed assets, net (D-E)**	**1,053.9**	**363.8**	**690.1**
G.	**Total uses of funds (C+F)**	**1,460.7**	**739.2**	**721.5**
	Cash and cash equivalents (-)	(671.3)	(1,336.1)	664.8
	Current financial assets (-)	(460.2)	(65.5)	(394.7)
	Payables to banks and other lenders	444.0	50.6	393.4
H.	**Net financial position**	**(687.5)**	**(1,351.0)**	**663.5**
	Share capital	25.0	25.0	0.0
	Reserves	606.5	603.3	3.2
	Retained earnings	1,433.2	658.7	774.5
	Profit for the year attributable to the Group	82.0	801.8	(719.8)
	Equity attributable to minority interests	1.5	1.4	0.1
I.	**Consolidated equity**	**2,148.2**	**2,090.2**	**58.0**
L.	**Total sources (I+H)**	**1,460.7**	**739.2**	**721.5**

Reclassified Cash Flow Statement[a]

Euro million	**Year 2016**	**Year 2015**
Profit for the year	82.2	802.1
Amortisation and depreciation	99.8	62.9
Net change in leaving indemnities	(0.5)	(0.4)
Net change in provisions for risks and charges	13.0	13.1
Write-downs/-ups of equity investments and financial assets	1.5	2.4
Other write-downs of fixed assets	5.9	17.2
(Gains)/Losses from the disposal of assets	1.7	0.7
Write-downs of current securities	3.4	0.0
Gains and extraordinary income	0.0	(827.0)
Finance income from derivatives	(0.8)	0.0
Change of items in net working capital		
- Inventories	(29.9)	(95.2)
- Trade receivables	(82.4)	(11.1)
- Other receivables and assets	(39.9)	(19.8)
- Trade payables	88.1	25.0
- Other payables and liabilities	25.4	1.2
Cash flow generated by (used for) operating activities	**167.5**	**(28.9)**
Net investments in:		
- Intangible assets	(14.7)	(12.0)
- Tangible assets	(87.1)	(51.0)
- Equity investments in subsidiaries, net of changes in consolidation area	0.0	0.0
- Equity investments in other companies	0.0	1,164.3
- Other securities	1.8	3.4
- Other financial assets	0.1	(2.5)
- Business unit acquisition	(709.5)	(51.8)
Cash flow generated by (used for) investing activities	**(809.4)**	**1,050.4**
Dividends paid	(25.2)	(13.4)
Cash flow generated by (used for) financing activities	**(25.2)**	**(13.4)**
Currency translation gains (losses) and other	(0.9)	2.4
Net cash flow for the year	**(668.0)**	**1,010.5**
Other non-cash changes in the net financial position	4.5	0.0
Bridge of net financial position	**(663.5)**	**1,010.5**
Net financial position at year-start	**1,351.0**	**340.5**
Net financial position at year-end	**687.5**	**1,351.0**

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

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Directors' Single Report on Operations


SELECTION EXCLUSIVE
CARTE NOIRE
ESPRESSO
CORSÉ
Riche et Complexe
N°10
ARÔME PRÉSERVÉ
SELECTION EXCLUSIVE
CARTE NOIRE
ESPRESSO
PUISSANT
Profond et Puissant
N°11
ARÔME PRÉSERVÉ
SELECTION EXCLUSIVE
CARTE NOIRE
ESPRESSO
ABSOLU
Dense et Boisé
N°13
ARÔME PRÉSERVÉ
SELECTION EXCLUSIVE
CARTE NOIRE
ESPRESSO
INDE
Montagnes du Sud
Puissant et Epicé
ARÔME PRÉSERVÉ
CARTE NOIRE
ESPRESSO
COLOMBIE
Raffiné et Acidulé

The Macroeconomic Context

+3%

Global growth in 2016

Despite the very active approach taken by central banks, global growth in 2016 was stable on the previous year at just above 3%, primarily driven by private consumption, due to both a slight improvement in the job market and greater consumer confidence, above all in certain areas.

The year was marked by particularly significant historical events.

In Europe, despite survey results to the contrary, the referendum of 23 June approved the United Kingdom's departure from the European Union.

The referendum of 23 June approved the United Kingdom's departure from the European Union.

After strong initial volatility, markets recovered as they awaited information about the timing and methods of implementation of the Brexit plan. However, political uncertainty could have an adverse impact on confidence, investments and financial conditions on the markets in general.

In the Euro Area, inflation, which was near zero, drove the ECB to adopt an additional package of expansionary measures during the year, based on an expansion of the scope and composition of its securities purchases, lower official rates and refinancing measures for banks.

Republic candidate Donald Trump triumphed in the U.S. elections.

In the U.S., Republican candidate Donald Trump triumphed in the November elections, once again proving all predictions wrong. After an immediate decline, the market's reaction focused on the longer-term impacts, which along with potential fiscal policy measures contributed to rising interest rates and stock prices.

The U.S. Federal Reserve waited to see the results of its accommodating policies and an improvement in the job market before finally announcing, at its last meeting of the year, a rate increase that had been expected since the beginning of the year.

In China, the growth rate was slightly below 7%. In India, growth is being driven by stronger private consumption and a positive contribution from the international channel.

In the main emerging countries, the economic scenario remains fragile, although the situation in oil-producing countries is less worrisome now that oil prices have recovered.

In China, economic growth, which amounted to slightly less than 7%, continues to be driven by the government's fiscal and monetary policies.

In order to maintain the current growth trend, private consumption will need to gradually replace government investments for development to become sustainable.

In India, despite the decline in investment by the public sector and the weak recovery of private investments, growth is being driven by stronger private consumption and a positive contribution from the international channel.


LAVAZZA


LAVAZZA
A MODO MIO

Industry Overview

In the At Home business on the Italian market, and in the Grocery sector in particular, sales increased by value (+1.5%), driven by fresh products, despite essentially stable prices.

In Italy, coffee consumption decreased further, following the reduction already witnessed in the past two years: the annual decline was -1.5% by volume and -1.2% by value, while average prices were essentially stable and promotional support slightly stronger, within a scenario in which the Grocery sector saw stable promotional efforts. In the Grocery sector, after several years of shrinkage of the product mix in Italians' shopping carts, the phenomenon stabilised in 2016. This trend also extended to the coffee market, where lower-price brands suffered, while products in medium-high positions and private-label products benefited.

Espresso — a premium alternative to more traditional ground coffee — was once more penalised by consumers' choices, as they shift towards the capsule segment, which also in 2016 showed growth exceeding 20%, as in previous years.

In Italy:

+1.5%

Increase in sales in the At Home business

+20%

Increase in sales in the capsule business

Within this scenario, Lavazza performed well, moving up more positions in the rankings by volume than by value, and not only in the traditional ground coffee segment, but also in segments such as decaffeinated coffee and whole-bean products.

In the Food Service channel, Lavazza achieved growth by both net sales and volumes in 2016 in Italy, consolidating its market share in a context characterised by a slight recovery by volume, but a decline by value.

The Italian market was positive, due to an expansion of the customer base focused on the premium segment. In particular, the new product portfolio and a clear strategy of segmenting the product range to suit the various customer types allowed important new products to be brought to the market in keeping with current consumption trends in Italy and internationally.

The new product line was supported by both a new marketing policy and the launch of a new visibility programme with a new brand image, adapted to each customer segment, thus ensuring uniformity between the products distributed and the stores activated.

In 2016, in the Food Service sector, Lavazza recorded a growth both in terms of net revenues and volumes in Italy.

The challenges in 2017 will continue to relate to expanding distribution in the premium segment of the Ho.Re.Ca market with a distinctive range of products for cafes, hotels and restaurants, with a prominent role to be played by the new Kafa Special Edition and the new organic product Alteco.

New products: Kafa Special Edition and organic Alteco.

Operating and Financial Performance of the Lavazza Group

+28.8%

Sales of goods and services

60.3%

Percentage of revenues generated on foreign markets

61.7 mn

EBIT

In 2016 the Group continued to implement its strategic plan for organic growth, which focuses on specific markets and geographical areas, in addition to significantly intensifying non-organic growth through the acquisition of Carte Noire business (a market leader in France).

Sales of goods and services amounted to €1,895.7 million, up 28.8% compared to 2015.

The significant rise in revenues compared to the previous year was mainly attributable to the sales made by the Carte Noire business unit, acquired in late February 2016 and the sales made by the Merrild business line acquired in late September 2015. Sales for 2016 recorded by the Carte Noire and Merrild business units, realized by the Parent Company and the companies Carte Noire S.a.s. and Merrild Kaffe ApS amounted to €366.4 million.

Revenues generated abroad accounted for 60.3% of the total (compared to 52.8% in 2015).

Operating income (EBIT) amounted to €61.7 million, up by €15.7 million compared to €46.0 million for 2015. EBIT margin went from 3.2% to 3.3%, virtually in line with the previous year.

As shown by the following graphical analysis, the essential stability was the product of the following factors:

- The cost of sales increased in absolute value mainly as a result of the higher volumes of green coffee, whereas the ratio to revenues dropped by 1.5pps due to the decrease in purchase prices.
- Costs for services and other directly related costs increased in absolute value by €184.5 million compared to 2015, up by 1.3pps.
- Personnel costs increased in absolute terms due to both the expansion of the headcount for certain strategic functions of the Parent Company and the acquisition of Carte Noire. In percent terms, they decreased by 0.5 points

CHANGE IN
EBIT MARGIN

Net profit for the year was €82.2 million, down by 719.9 million compared to €802.1 million for the previous year, mainly due to the absence of the finance income from the disposal of the equity investments in Keurig Green Mountain Inc.

Net profit for the year was €82.2 million.

Net working capital amounted to €406.8 million, up by €31.3 million compared to €375.5 million at 31 December 2015. This change was attributable to the following components:

- Higher inventories (€34.4 million) and higher trade receivables (€83.4 million), mainly related to the new Carte Noire branded products.
- Higher trade payables (€92.9 million) also related to procurements for the production of Carte Noire branded products.
- The remainder was due to the contrasting effect of greater trade payables for promotional discounts and greater tax receivables due to prior-year taxes.

Net working capital was €406.8 million.

Net fixed assets totalled €1,053.9 million, up by €690.2 million compared to €363.7 million at 31 December 2015, mainly attributable to the acquisition of the business unit operating in the distribution of Carte Noire branded coffee products in France amounting to €713 million.

Net fixed assets amounted to €1,053.9 million.

Net financial position presented a positive balance of €687.5 million, marking a decrease of €663.5 million compared to €1,351.0 million in the previous year. The significant decline was mostly due to outlays associated with the aforementioned acquisition of the Carte Noire business unit and trademark.

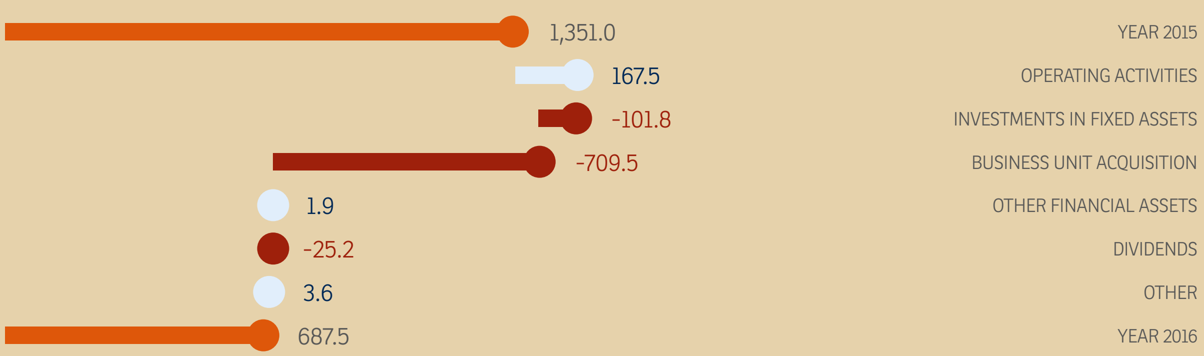
Net financial position showed a positive balance of €687.5 million.

As shown by the following chart, net cash flow generated by operating activities was positive at €167.5 million, attributable to the earnings component (profit plus non-monetary costs), which was positive for €206.2 million, and the €38.7 million decline in net working capital.

The following investments were undertaken during the year:

- Net investments in intangible assets (€14.7 million), primarily due to development costs incurred in order to adapt and improve the Group's IT and reporting systems.
- Net investments in tangible assets (€87.1 million), mainly involving plant, industrial machinery and espressomakers on free loan for use.
- Investments for the acquisition of the Carte Noire S.a.s. business unit (€713 million), net of the cash and cash equivalents acquired (€3.5 million).

BRIDGE OF NET FINANCIAL POSITION



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

- ROS, calculated as the ratio of core business profit to sales, was 3.4% in 2016, up compared to 2015 (3.3%). The trend was similar to that of the EBIT margin.
- ROI, determined as the ratio of core business profit to capital invested in the core business, includes operating items of the balance sheet, namely inventories, trade receivables and payables and fixed assets net of write-ups. It decreased sharply to 4.4%, compared to 6.8% for the previous year.

  The 2.4pp reduction was chiefly attributable to the increase in the value of intangible assets as a result of the acquisition of the Carte Noire business unit.
- ROE, calculated as the ratio of profit for the year to equity, stood at 3.8% in 2016, declining sharply compared to 2015 (38.4%), primarily as a result of the gain on the disposal of the shares in Keurig Green Mountain Inc.


WE ARE WHAT WE LIVE.
SPAZIO LAVAZZA
THE EARTH DEFENDERS EXHIBITION
STEVE McCURRY / JOEY L. / DENIS ROUVRE
BORS
LA STAMPA

Sales of Goods and Services and Costs of the Lavazza Group

Sales of Goods and Services

PARENT COMPANY'S SALES IN ITALY

41%

by volume

AT HOME BUSINESS

The coffee market in Italy declined by 1.5% in terms of volumes compared to 2015, with decreases in all segments except for capsules.

The market also declined by value, albeit to a lesser extent (-1.2%), due to the growth of the portioned segment.

Within this scenario, Lavazza maintained its leading position, increasing its market share by volume, which stood at 41% (+0.5% on 2015).

Market sales prices were essentially in line with 2015, whereas Lavazza decreased its list prices by approximately 5%.

AWAY FROM HOME BUSINESS

The AFH Italy sales for 2016 was marked by a slight decrease (2%), in detail:

Sales volume grew in traditional coffee (+4%) and BLUE capsules (+5%).

FOOD SERVICE

Sales increased by volume for both traditional coffee (+4%) and BLUE capsules (+5%).

The Eraclea business line instead decreased, due to the redefinition and rationalisation of its products.

Whole beans showed robust growth (+40%).

OCS VENDING

OCS Vending Italy reported a slight decline in sales compared to the previous year (-3%) due to the decline in the number of machines sold: this was primarily due to the introduction of the new Firma system, whose business model involves the delivery of coffeemakers on free loan for use rather than for sale (approximately 50,000 units assigned as of the end of 2016). Whole beans showed sharp growth (+40%), whereas total capsule sales volumes remained stable (while EP declined and Firma, launched at the end of 2015, grew gradually).

PARENT COMPANY'S INTERNATIONAL MARKET SALES THROUGH DISTRIBUTORS

Lavazza S.p.A. continued to show a positive performance on the foreign markets it serves in terms of the volumes of traditional coffee sold (+14%), while capsules declined for both the EP system, due to the gradual introduction of the new Firma system, and the Rivo system, which is being discontinued.

SALES FIGURES OF THE SUBSIDIARIES

AT HOME BUSINESS

With reference to foreign markets, a sharp growth was recorded in traditional coffee volumes (+30%) and revenues (19%) driven by Germany, France and the UK.

The increase in the Group's sales was driven not only by the strong performances of the historical subsidiaries, but also by the acquisitions of the Danish Merrild and the Australian subsidiary, which came within the scope of the Group in the fourth quarter of 2015 and contributed for all of 2016.

The French company Carte Noire, which produces and markets coffee in the At Home business in France, was acquired in 2016.

Traditional coffee:

+30%

Volumes

+19%

Revenues

AWAY FROM HOME BUSINESS

The international Food Service business grew by 7% overall in terms of sales, above all in France and the United Kingdom. The new Australian subsidiary and the recently acquired Merrild also contributed positively in this sector.

The Food Service business abroad saw a 7% growth in revenues, especially in France and the UK.

Costs

RAW MATERIALS – GREEN COFFEE

55 mn

Bags of Brazilian harvest

13 mn

Bags of Colombian harvest

25 mn

Bags of Vietnamese harvest

10 mn

Bags of Indonesian harvest

In 2016, the coffee market was characterised by a constant increase in the prices of both Arabica and Robusta coffee.

The persistent drought in the regions where Brazilian Robusta is grown, despite an excellent Arabica harvest, yielded expectations of a potential coffee shortage.

This possibility was promptly exploited by speculators, who began to make purchases on both exchanges, resulting in rising prices.

The positions taken by funds reached very high values, particularly in the case of Robusta coffees, not offset in any way by traditional players (roasters, international traders and distributors in coffee-growing countries) due to the scope of the phenomenon.

The New York Exchange fluctuated between an annual low of around 114 cents/lb (second position) at the end of January and 178 in early November. In the final days of the year, a series of massive profit-taking sales caused the market to plummet below 140 cents.

The London Exchange mirrored its counterpart, ranging from a low of

1,366 USD/t at the end of January to a high of 2,194 at the beginning of November (second position). On this market, where there are real concerns of a shortfall, prices remained stable until year-end, to close the period at 2,138 USD.

At the level of production, the Brazilian harvest was considerable for Arabica beans but remained meagre for Robusta coffee, reaching 55 million bags overall. This is a significant amount, but it must be considered that the country normally exports more than 30 million bags and locally consumes at least 20.

Brazilian growers are very well paid and enjoy the opportunity to sell while maintaining tension on the domestic market and taking advantage of excellent prices.

Columbia yielded 13 million bags of excellent quality, sold at competitive prices compared to similar qualities from Central America. In these areas production was stable, with only Honduras posting an increase.

The Vietnamese harvest exceeded 25 million bags, and Indonesia was also stable at around 10.

Of the African countries where we make our purchases, mention should be made of Uganda, due to its regular volumes and supply, and other countries in West Africa, which instead offered meagre harvests of modest quality.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LAVAZZA
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LAVAZZA
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LAVAZZA
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SERVICE COSTS

The most significant cost components within the category are represented by compensation paid to customers for promotional activities and marketing costs, in particular for investments in advertising campaigns. The increase compared to the previous year was mainly linked to the Carte Noire business.

Among the most significant events of the year, Lavazza is official supplier of the Grand Slam tournaments: Wimbledon, the US Open, Roland Garros and since 2016 the Australian Open.

Lavazza is official supplier of the Grand Slam tournaments of Wimbledon, the US Open, Roland Garros and, since 2016, the Australian Open.

PERSONNEL COSTS

At the end of 2016, personnel costs were essentially in line with year-start projections.

At the headquarters level and on the Italian market, there was an increase in costs compared to the previous year due to normal salary dynamics (contractual increases and remuneration policies) and an increase in headcount at certain strategic functions based at the Turin headquarters.

At the Group level, the most significant increase compared to 2015 was seen on the French market, where the Carte Noire companies were acquired. This transaction resulted in an increase of over 300 resources, spread across the company based in Paris and the Lavérune production facility based in southern France.

In the other geographical areas, there were cost increases, above in all in Denmark and Australia, as a result of the inclusion within the scope of consolidation of the subsidiaries Merrild and Lavazza Australia Pty Ltd for the entire financial year, compared to just a few months in 2015.

GAINS (LOSSES) FROM EQUITY INVESTMENTS

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

FINANCE INCOME (EXPENSE)

The Company's liquidity was partly allocated to operational management and, as customary, partly invested in conservative short-term instruments in Euro offered by the institutions with which the Group deals.

The more structural part was allocated to the newly incorporated Lavazza Capital S.r.l., which primarily invests in bonds listed on regulated markets, continuing the Group's traditional capital protection policies.

At the level of finance expense, it should be noted that the five-year corporate loan, obtained in a club deal with a pool of four banks in February, was converted to fixed rate through an interest rate swap transaction in March.

During the year, interest rate risk on the real-estate lease contracted to build the Parent Company's new headquarters was also partially hedged.

Lavazza Group's Investments and Acquisitions

INVESTMENTS

Industrial investments at Italian plants were essentially in line with the previous year, and in particular related to the expansion of the Roast & Ground product line in soft pack packages, intended for the Merrild business on the Danish market, and the introduction of a new portioned coffee line at the Turin plant.

The investments envisaged in the long-term plan to expand production capacity and diversify Roast & Ground and portioned formats were completed in 2016. Production was also transferred from the Verres plant to other Italian plants.

In addition, at all Italian plants, work continues on maintaining production assets, ensuring respect for the environment and increasing safety in the workplace.

Construction of the entire Nuvola complex is under way and delivery is scheduled by the end of 2017.

Construction of the entire Nuvola complex is under way and delivery is scheduled by the end of 2017. Work on the office building is also set to be completed in 2017, although a first group of people moved into the new offices in the final days of the year, marking the partial delivery of the work.

The other properties – in addition to the office building and the small building that has been leased to the IAAD for several years now – will house the cafeteria, a gourmet restaurant, an event centre and an auditorium, the Lavazza museum, a square and a public parking area.

The Company intends to develop and/or dispose of portions of its current real-estate holdings no longer functional to Lavazza's needs, provided that the real-estate market remains stable: efforts in this direction include the sale of the small building at Via Tollegno 16, the advanced negotiations for the lease and sale of the Baranzate logistics hub and the sale of the property on Via Pedrotti in Turin.

On 29 February 2016, the Carte Noire business unit was acquired.

ACQUISITIONS

The Carte Noire business unit was purchased from the Dutch firm Koninklijke Douwe Egberts B.V. on 29 February 2016. The business unit is composed of the trademark, intellectual property rights, and 100% of Carte Noire S.a.s. and its subsidiary Carte Noire Operations S.a.s., which owns the Lavérune production facility. The transaction, undertaken with the approval of the French competition authority and the European Commission, allows Lavazza to take an important step in its international growth process. Carte Noire is a leading player in the retail channel in France, and this acquisition makes France Lavazza's number-two market after Italy. The scope of the transaction also extends to the five-year licence for the Senseo trademark in Austria for soft pods and Nespresso®[1] compatible capsules.

[1] *The Nespresso® brand is not owned by Luigi Lavazza S.p.A. or associated companies.*


CARTE
NOIRE


EACH CUP
CAN CHANGE
YOUR LIFE.
LAVAZZA

The Parent Company Luigi Lavazza S.p.A.

Sales of goods and services amounted to €1,429.8 million, up 18.7% compared to €1,204.5 million for 2015.

Operating income (EBIT) amounted to €54.1 million, up by €15.1 million compared to €39.0 million for 2015. EBIT margin went from 3.2% to 3.8%.

Profit for the year was €88.2 million, down by €713.4 million from €801.6 million in the previous year, primarily due to the elimination of the non-recurring component relating to income on equity investments.

Net financial position was a negative €30.7 million, down by €706.6 million at the end of 2015. The decrease primarily refers to the outlay for the acquisition of the Carte Noire business unit.

Net cash flow from operating activities was positive at €107.8 million, significantly impacted by the earnings component (profit plus non-monetary costs) of €184.50 million, only partly offset by the absorption of liquidity attributable to the change in net working capital (€76.70 million).

The cash flows from investing activities has an overall negative net balance of €791.2 million, mainly composed of:

1,429.8 mn

Sales of goods and services

54.1 mn

EBIT

88.2 mn

Profit for the year

- increases (€7.7 million), from the conferment of shares in the companies Tamburi Investment Partners S.p.A and Clubitaly S.p.A.;
- investments in intangible assets (€13.8 million), primarily attributable to the acquisition of the Carte Noire business unit;
- investments for tangible assets (€46.5 million), mainly involving property, plant, equipment and espressomakers;
- equity investments (€98.9 million), mainly attributable to the acquisition of Carte Noire S.a.s.;
- recapitalisations of equity investments in subsidiaries (€2.1 million);
- financial equity investments (€21.3 million) for conferment of financial instruments to Lavazza Capital S.r.l.;
- financing provided to the company Carte Noire Operations S.a.s. (€14.2 million);
- increases due to the contribution of other investment funds (€12.0 million).

Other Group Companies

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

COMPANIES OPERATING ABROAD

The foreign subsidiaries mainly deal with distributing and marketing coffee products and coffeemakers, except for Lavazza Finance Ltd. in liquidation, which offers financial support to Group companies, and Lavazza Netherlands B.V., an investment holding company.

Lavazza Coffee (UK) Ltd (United Kingdom) – Sales amounted to GBP 60.9 million, up compared to the previous year. All channels continued to grow thanks to the consolidation of the products launched in 2015 and the expanded distribution.

Lavazza Deutschland G.m.b.H. (Germany) – Sales stood at €160.2 million, up compared to the previous year as a result of the good performance reported by both the At Home and Away-From-Home channels.

Lavazza France S.a.s. (France) – Thanks to the increase in the low-price segment, the company's sales were €124.9 million, up compared to the previous year. In 2016, the Retail unit of the company was contributed to Carte Noire S.a.s., a French company acquired by the Group in 2016, in return for a 5.32% equity interest.

Brasilia S.a.s. (France) – Acquired by Lavazza France S.a.s. at the end of 2015, the company reported sales for approximately €2.3 million in 2016.

Lavazza Kaffee G.m.b.H. (Austria) – recorded sales of €13.5 million, up compared to the previous year, including the effect of the sales of products under the Senseo brand, acquired by Lavazza in 2016, limited to the Austrian territory.

Lavazza Nordic AB (Sweden) – The company's sales rose owing to the launch of dedicated filter products Sales were €10.5 million in 2016.

Merrild Kaffe ApS (Denmark) – Acquired by the Parent Company in 2015, the company recorded sales of €45.5 million in 2016, a year in which it started to expand the range of products offered on new segments and channels.

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

Lavazza Australia Pty Ltd (Australia) – Incorporated in 2015 and fully owned by the Parent Company, it operates in Australia, where it distributes Lavazza products in both the At Home and Food Service channels. In 2016, sales were approximately AUD 57.1 million, with a marked increase in the At Home channel.

Lavazza Spagna S.L. (Spain) – The company operates in the Spanish market providing account management, training and marketing services.

Lavazza Finance Ltd (Ireland) – The company was placed in liquidation in 2016.

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

Lavazza Maroc S.a.r.l. (Morocco) – Sales amounted to MAD 0.5 million (about €5,000).

Lavazza Premium Coffees Corp. (United States) – Sales totalled USD 101.6 million, marking a decline compared to 2015 due to higher advertising pressure.

Coffice S.A. (Argentina) – The company operates in the Argentinean OCS (Office Coffee Service) segment. Sales were ARS 57.3 million.

Lavazza do Brasil Ltda (Brazil) – Sales totalled BRL 18.1 million. The reporting year saw the launch of a reorganisation process of its activities, including the disposal of the Vending business unit and the redefinition of its distribution model.

Almada Comercio de Cafè Ltda (Brazil) – The company, specialising in the Food Service segment in the São Paulo area, has recently discontinued its operations and is currently not operating.

Fresh & Honest Café Ltd (India) – The company, which primarily operates in the Vending segment, reported sales of €21.1 million.

Lavazza Trading (Shenzhen) Co. Ltd (China) – In the reporting year, the company continued to provide the Parent Company with engineering services to develop new coffee machines.

Carte Noire S.a.s. (France) – The newly acquired French company, which distributes Carte Noire-branded products within the Retail sector of the French market, reported sales of €342.1 million. At the end of the year, it acquired the Retail unit for Lavazza branded products from Lavazza France S.a.s.

Carte Noire Operations S.a.s. (France) – The recently acquired French company's main business is the production of coffee under the Carte Noire brand under a contract manufacturing agreement with the Parent Company, which generated sales of €24.6 million in 2016.

COMPANIES OPERATING IN ITALY

Lavazza Capital S.r.l. – The company, fully owned by Luigi Lavazza S.p.A., was incorporated at the end of 2015 with the aim of undertaking financing transactions for the Group and managing a significant portion of its liquidity, so as to optimise the risk/return of its investments.

Cofincaf S.p.A. – The company, which provides financial support to customers in the Vending and Ho.Re.Ca. sectors, recorded transactions for a total amount of €52.6 million at 31 December 2016 (€57.5 million in 2015). The reduction of financing chiefly concerned the Vending sector in Italy.

Lea S.r.l – Sales amounted to €0.6 million, essentially stable compared to 2015.


CARTE NOIRE
ARABICA EXCLUSIF
ARÔME INTENSE
LAVAZZA
TORINO, ITALIA, 1895
SELEZIONE PREMIUM
QUALITÀ
ORO
100% ARABICA
GROUND COFFEE
Merrild
FRISKHED OG AROMA
FORMALET KAFFE
MELLEMRISTET
500g

Risk Management

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

EXCHANGE RATE RISK

In 2016, despite various events with a significant political and economic impact, such as Brexit and the U.S. elections, the euro/dollar exchange rate continued to fluctuate in range, reaching a high of 1.1529 and a low of 1.0385, with an annual average of 1.1067.

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

EXCHANGE RATE RISK

Although 2016 was characterised by very low rates from the historical standpoint, there was an initial recovery in both the euro and dollar areas. In particular, euro rates began to price in the phasing-out of quantitative easing by the European Central Bank and stronger growth and inflation prospects.

After the five-year corporate loan was contracted, interest rate swap contracts were entered into, fully hedging interest rate risk by transforming the loan from floating rate to fixed rate.

In addition, the interest rate risk on the real-estate lease taken out to build the new headquarters was partially hedged through an interest rate swap, which converted a part of the lease from floating rate to fixed rate.

COMMODITY PRICE RISK

Lavazza is exposed to financial risks associated with fluctuations in raw materials (green coffee) prices.

The use of appropriate hedging instruments is assessed from time to time with the sole purpose of limiting the effect of price fluctuations, without ever pursuing any speculative aims.

CREDIT RISK

In December 2016 the Group's credit exposures grew compared to the same period of the previous year, in line with the increase in sales due to organic growth and the acquisition of Carte Noire.

Average payment times remain very satisfactory, despite the slight increase relating to the inclusion of Carte Noire, affected by the conditions of transfer of ownership of the goods (on delivery and not on shipment), in accordance with French law.

All international credit exposures were protected through bank guarantees, security deposits or advances. In Italy, a new Group policy has recently begun to be implemented and is scheduled for completion by the end of 2017, when uniform criteria will apply to lines of credit for all customers

Research and Development

Compostable capsules compatible with the A Modo Mio coffeemakers were launched on the market.

As part of ongoing sustainability efforts, compostable capsules compatible with the A Modo Mio coffeemakers were launched on the market. These capsules, the product of a five-year research project in collaboration with Novamont, are made from Mater-Bi®, a plant-based material used to make products similar to plastics that are fully biodegradable and can be converted into humus or compost. The capsules have been on sale through the Lavazza website since March 2016.

The first two single origin products, Cereja Passita and Selva Alta, hit the market.

Research and development efforts aimed at expanding the product line have resulted in the creation of the first two single origin products, Cereja Passita and Selva Alta. Dedicated to the Retail segment (ground coffee and A Modo Mio capsules), they are made from selected 100% organically grown Arabica that is 100% sustainable and has received Rainforest Alliance certification.

The Carte Noire range was expanded to include a new capsule line.

In 2016 research and development focused on improving the Carte Noire range by adding a new line of capsules compatible with Nespresso®[1] home coffeemakers, further rounding out the previous range. These capsules help protect the product's freshness over time and do not require secondary packaging. The same type of capsule has also been produced using Lavazza brand blends, thus expanding the range of new products intended for the European market.

New coffeemakers released: Jolie, Lavazza Firma LF400 and Lavazza Firma LF400 Milk.

Finally, three new coffeemakers were brought to market:

- Jolie, the new home coffeemaker for use with the A Modo Mio espresso system, among the most compact models on the market, featuring entirely Italian design and very quiet operation.
- Lavazza Firma LF400 and Lavazza Firma LF400 Milk, intended for the Away from Home/Office channel; this new version has an integrated milk system, ideally suited to those who wish to enjoy other Italian coffee recipes, in addition to savouring high-quality genuine Italian espresso.

[1] *The Nespresso® brand is not owned by Luigi Lavazza S.p.A. or associated companies.*


GROUND COFFEE
200g NET | 7 oz
LAVAZZA
TORINO, ITALIA, 1895
SINGLE ORIGIN
CEREJA PASSITA
BRAZIL
CORPOSO CON NOTE DI MIELE
BODIED WITH HONEY NOTES
100% ARABICA
RAINFOREST ALLIANCE CERTIFIED
GROUND COFFEE
200g NET | 7 oz
LAVAZZA
TORINO, ITALIA, 1895
SINGLE ORIGIN
SELVA ALTA
PERÙ
AROMATICO CON NOTE FRUTTATE
AROMATIC WITH FRUITY NOTES
100% ARABICA
RAINFOREST ALLIANCE CERTIFIED
SUITABLE FOR ALL COFFEE MAKERS

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

Lavazza has always been a responsible company strongly committed toward enhancing the value of the territories and communities in which it operates and containing the environmental impact of its activities. Over the decades, this focus has been transformed into coordinated, synergetic action in Italy and coffee-producing countries, through a holistic approach that aims at integrating sustainability in all business areas.

Lavazza's Sustainability activities fall into four major areas: product sustainability, production sustainability, and enhancement of relations with internal and external stakeholders.

Lavazza's Sustainability activities fall into four major areas: product sustainability, production sustainability, and enhancement of relations with internal and external stakeholders.

In 2016 Lavazza established an Institutional Relations and Sustainability Department, which reports directly to the Chief Executive Officer and is tasked with coordinating all of the Group's social and environmental sustainability efforts.

In 2016 the Foundation promoted and supported more than 20 projects in 15 coffee-growing countries in Latin America, Africa and Asia.

In particular, Lavazza monitors the implementation of the Lavazza Foundation's projects in coffee-producing countries. These projects aim to spread awareness among growers of the techniques of sustainable agriculture, promote an entrepreneurial approach among producers and facilitate the creation of cooperatives and other organisations. In support of these two main activities, projects include promoting the role of women and young people in the coffee business and the spread of farming techniques aimed at adapting to climate change. In 2016 the Foundation promoted and supported more than 20 projects in 15 coffee-growing countries in Latin America, Africa and Asia.

Particular attention is also paid to the relationship with the community in areas where the Group has not only executive offices, but also plants and subsidiaries. Through community engagement efforts, many projects have been completed in support of the places important to Lavazza, which holds discussions with and works actively with the local government, associations and foundations to create synergies with a significant social, economic and environmental impact.

Lavazza has decided to make a commitment to social responsibility, while also taking up the challenge of climate change, by tracing a sound path to sustainability that involves all participants in an informed manner.

The knowledge gained in its efforts to date has led Lavazza to invest further in those parts of its organisation committed to environmental sustainability, with the aim of creating a more thorough and accurate map of the organisation's impact, expanding its borders and redefining its performance indicators and parameters, in order to devise its environmental strategy.

The approach adopted by Lavazza is based on life cycle thinking (LCT), which considers the various phases of a product's life cycle and assesses its main impacts, from the concept phase to planning, including an assessment of processes not under the company's direct control. The tool used – which is recognised at a scientific and international level – is life cycle assessment (LCA), which assesses the environmental impacts of the various phases of the life cycle, from the procurement of raw materials to the disposal of the finished product.

In this process of consolidating its approach to sustainability, Lavazza attaches a great deal of importance to working closely with researchers and partners to reach a shared medium-to-long term view, in the conviction that collaboration with stakeholders is fundamental to achieving concrete goals in terms of improved environmental performances. To this end, Lavazza takes active part in the main Italian and international working groups tasked with drawing up standards for calculating specific impacts for each product type, indispensable to allowing organisations to assess themselves and take concrete action through activities aimed at reducing their impact.

Lavazza also strives to set purchasing standards that include social and environmental criteria and call for a commitment by all suppliers to share and spread the Company's core values.

These are important milestones in the ongoing improvement of the economic, environmental and social performances of a company that has considered sustainability a fundamental driver to ensure its development for 120 years.

Lavazza's business policies have always been based on the fundamental principles aiming to minimise the environmental impact on local communities and limit the consumption of resources.

Lavazza's business policies have always been based on the fundamental principles aiming to minimise the environmental impact on local communities and limit the consumption of resources.

Lavazza's Health, Workplace Safety, Energy and Environment Management System

In 2016 Lavazza began the process of implementing the Group's HSE (Health, Safety and Environment) Guidelines, in accordance with the orientation set out in the Corporate Workplace Health and Safety Policy officially released in March 2015.

Within the framework of its project to design and set up an integrated health, workplace safety, energy and environment management system, the Company continued with the internal audit process, developing an initial set of operating procedures and conducting a documented environmental and energy analysis at all production facilities.

In the area of legal compliance and certification, the Company was awarded consolidated environmental authorisation (AUA) for its Pozzilli plant and an update to its integrated environmental authorisations (AIA) for its Turin and Gattinara plants.

Further Information

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

The 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.

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

The Company owns 2,499,998 treasury shares worth €1 each.

The 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 Company did not establish secondary offices in 2016.

THE CHAIRMAN OF THE
BOARD OF DIRECTORS

(Alberto Lavazza)

3

Consolidated Financial Statements

Consolidated Balance Sheet - Assets

Euro units		31/12/2016		31/12/2015 (*)	
A)	**CALLED-UP SHARE CAPITAL NOT PAID**		**0**		**0**
B)	**FIXED ASSETS**				
I)	**INTANGIBLE ASSETS**				
1)	Start-up and expansion costs	0		0	
2)	Development costs	4,438,807		2,209,557	
3)	Rights for industrial patents and rights for exploitation of intellectual property	21,249		44,517	
4)	Concessions, licences, trademarks and similar rights	288,506,819		33,082,986	
5)	Goodwill	429,480,121		22,475,260	
6)	Intangible assets in progress and advances	991,120		4,782,767	
7)	Other	13,741,671		6,324,944	
	TOTAL INTANGIBLE ASSETS		**737,179,787**		**68,920,031**
II)	**TANGIBLE ASSETS**				
1)	Land and buildings	119,609,011		127,810,688	
2)	Plant and machinery	133,432,332		105,851,626	
3)	Industrial and commercial equipment	49,997,355		40,602,816	
4)	Other assets	11,398,540		8,194,165	
5)	Tangible assets in process and advances	55,213,915		32,077,452	
	TOTAL TANGIBLE ASSETS		**369,651,153**		**314,536,747**
III)	**FINANCIAL ASSETS**				
1)	Equity investments				
	a) subsidiaries	3,003,890		3,003,890	
	b) affiliates	2,053,051		2,036,503	
	d-*bis*) other companies	15,002,994		16,472,486	
2)	Receivables				
	d-*bis*) from others				
	due after one year	1,150,651		1,266,598	
3)	Other securities	8,222,790		12,033,596	
	TOTAL FINANCIAL ASSETS		**29,433,376**		**34,813,073**
	TOTAL FIXED ASSETS (B)		**1,136,264,316**		**418,269,851**

		31/12/2016		31/12/2015 (*)	
C)	**CURRENT ASSETS**				
I)	**INVENTORIES**				
1)	Raw materials, ancillaries and consumables	182,401,389		173,067,364	
2)	Work-in-process and semi-finished products	1,165,609		1,750,917	
4)	Finished products and goods	130,094,938		108,677,146	
5)	Inventory advances	1,958,136		1,017,449	
	TOTAL INVENTORIES		**315,620,072**		**284,512,876**
II)	**RECEIVABLES**				
1)	Trade receivables				
	a) due within one year	397,893,953		308,210,563	
	b) due after one year	16,902,544		23,145,396	
2)	From subsidiaries	1,617		0	
3)	From affiliates	6,907,976		6,169,524	
4)	From the Parent Company	40,268,610		2,343,409	
5-*bis*)	Tax receivables	25,055,514		32,588,793	
5-*ter*)	Deferred tax assets	30,004,484		24,251,457	
5-*quater*)	Other receivables				
	a) Due within one year	11,183,427		7,073,055	
	b) Due after one year	341,309		418,223	
	TOTAL RECEIVABLES		**528,559,434**		**404,200,420**
III)	**CURRENT FINANCIAL ASSETS**				
5)	Financial derivative assets	5,805,598			0
6)	Other securities	454,399,595			65,496,723
	TOTAL CURRENT FINANCIAL ASSETS		**460,205,193**		**65,496,723**
IV)	**CASH AND CASH EQUIVALENTS**				
1)	Bank and post office deposits	671,186,050		1,335,963,050	
2)	Cheques	0		27,065	
3)	Cash and valuables on hand	97,814		84,796	
	TOTAL CASH AND CASH EQUIVALENTS		**671,283,864**		**1,336,074,911**
V)	**TANGIBLE ASSETS HELD FOR SALE**		**3,300,000**		**0**
	TOTAL CURRENT ASSETS (C)		**1,978,968,563**		**2,090,284,930**
D)	**PREPAYMENTS AND ACCRUED INCOME**		**15,281,351**		**11,193,855**
	TOTAL ASSETS		**3,130,514,230**		**2,519,748,636**

(*) *The figures for 2015 have been reclassified to reflect the introduction of new accounting standards with effect from 1 January 2016, resulting in the elimination from the balance sheet of section III, item 4) "Treasury shares", which has been reclassified to the equity and liabilities side of the balance sheet, section X, "Negative reserve for treasury shares in portfolio".*

Consolidated Balance Sheet - Equity and Liabilities

Euro units		31/12/2016		31/12/2015 (*)	
A)	**EQUITY**				
I.	SHARE CAPITAL	25,000,000		25,000,000	
II.	SHARE PREMIUM ACCOUNT	223,523		223,523	
III.	REVALUATION RESERVES	361,721,428		361,721,428	
IV.	LEGAL RESERVE	5,000,000		5,000,000	
V.	STATUTORY RESERVES	0		0	
VI.	OTHER RESERVES				
	a) other statutory reserves	261,102,224		261,102,224	
	c) currency translation reserve	(6,466,122)		(7,094,231)	
VII.	HEDGE RESERVE FOR EXPECTED CASH FLOWS	2,624,387		0	
VIII.	RETAINED EARNINGS	1,433,156,792		658,778,898	
IX.	PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO THE GROUP	81,950,294		801,780,624	
X.	NEGATIVE RESERVE FOR TREASURY SHARES	(17,732,533)		(17,732,533)	
	TOTAL EQUITY ATTRIBUTABLE TO THE GROUP		**2,146,579,993**		**2,088,779,933**
	MINORITY INTERESTS	1,308,329		1,107,216	
	PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTERESTS	209,751		294,673	
	TOTAL MINORITY INTERESTS		**1,518,080**		**1,401,889**
	TOTAL CONSOLIDATED EQUITY		**2,148,098,073**		**2,090,181,822**
B)	**PROVISIONS FOR RISKS AND CHARGES**				
2)	Provisions for taxes, including deferred	15,182,854		6,666,695	
3)	Financial derivative liabilities	2,159,929		0	
4)	Other	40,432,876		27,469,269	
	TOTAL PROVISIONS FOR RISKS AND CHARGES		**57,775,659**		**34,135,964**

		31/12/2016		31/12/2015 (*)
C)	**EMPLOYEE LEAVING INDEMNITIES**		**24,600,332**	**20,372,908**
D)	**LIABILITIES**			
4)	Payables to banks			
	a) due within one year	62,184,200		31,942,815
	b) due after one year	378,432,994		15,000,000
5)	Payables to other lenders			
	a) due within one year	214,132		207,328
	b) due after one year	3,194,173		3,397,008
6)	Advance payments	561,030		380,270
7)	Trade payables	333,257,444		240,421,512
9)	Payables to subsidiaries	607,119		650,977
11)	Payables to Parent Company	994,873		8,148,425
12)	Tax payables	26,157,500		10,214,558
13)	Social security liabilities	10,098,618		7,799,748
14)	Other liabilities	74,154,693		48,097,522
	TOTAL LIABILITIES		**889,856,776**	**366,260,163**
E)	**ACCRUALS AND DEFERRED INCOME**		**10,183,390**	**8,797,779**
	TOTAL EQUITY AND LIABILITIES		**3,130,514,230**	**2,519,748,636**

(*) *The figures for 2015 have been reclassified to reflect the introduction of new accounting standards with effect from 1 January 2016, resulting in the elimination from the balance sheet of section III, item 4) "Treasury shares", which has been reclassified to the equity and liabilities side of the balance sheet, section X, "Negative reserve for treasury shares in portfolio".*

Consolidated Income Statement

Euro units		Year 2016		Year 2015 (*)	
A)	**VALUE OF PRODUCTION**				
1)	Sales of goods and services	1,895,664,559		1,471,373,440	
2)	Changes in inventories of work-in progress, semi-finished and finished goods	21,247,200		16,416,762	
5)	Other income and revenues				
	- miscellaneous	11,399,534		12,505,224	
	- grants	3,600,092		763,636	
	TOTAL VALUE OF PRODUCTION		**1,931,911,385**		**1,501,059,062**
B)	**COSTS OF PRODUCTION**				
6)	Raw materials, ancillaries, consumables and goods	816,707,897		728,941,677	
7)	Services	686,459,804		508,488,188	
8)	Use of third-party assets	19,922,134		13,796,236	
9)	Personnel costs:				
	a) wages and salaries	150,615,698		116,254,569	
	b) social security costs	37,999,298		32,136,005	
	c) leaving indemnities	8,303,199		11,619,994	
	e) other costs	9,240,065		7,683,401	
10)	Amortisation, depreciation and write-downs				
	a) amortisation	40,996,837		7,266,740	
	b) depreciation	58,785,785		51,382,918	
	c) other write-downs	5,921,271		17,145,370	
	d) write-downs of receivables in current assets and of cash and cash equivalents	2,208,586		2,022,912	
11)	changes in inventories of raw material, ancillaries, consumables and goods	(8,765,987)		(79,243,621)	
12)	Privisions for risks	8,067,046		4,360,522	
13)	Other provisions	874,668		693,172	
14)	Miscellaneous operating costs	32,855,992		32,521,655	
	TOTAL COSTS OF PRODUCTION		**1,870,192,293**		**1,455,069,738**
	BALANCE BETWEEN VALUE AND COSTS OF PRODUCTION (A - B)		**61,719,092**		**45,989,324**

		Year 2016	Year 2015 (*)
C)	**FINANCE INCOME AND EXPENSE**		
15)	Income from equity investments		
	- in other companies	407,140	826,157,570
16)	Other finance income:		
	c) from current securities	8,173,793	12,941
	d) Income other than the preceding ones	3,317,040	6,279,347
17)	Interest and other finance expense		
	- other	(3,984,170)	(662,252)
17-*bis*)	Exchange gains and losses	(2,703,839)	(2,120,247)
	TOTAL FINANCE INCOME AND EXPENSE (15 + 16 - 17 +- 17-*bis*)	**5,209,964**	**829,667,359**
D)	**ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES**		
18)	Write-ups		
	a) of equity investments	16,549	0
19)	Write-downs		
	a) of equity investments	(1,466,291)	(11,821)
	b) of financial assets other than equity investments	(3,935)	(2,425,382)
	c) of current securities other than equity investments	(3,358,864)	0
	TOTAL ADJUSTMENTS (18 - 19)	**(4,812,541)**	**(2,437,203)**
	PROFIT BEFORE TAXES (A -B +- C +- D)	**62,116,515**	**873,219,480**
22)	Current, deferred and prepaid tax assets and liabilities for the year		
	- current taxes	17,905,120	(71,616,380)
	- deferred tax liabilities	65,503	308,410
	- deferred tax assets	2,072,907	163,787
26)	**PROFIT (LOSS) FOR THE YEAR**	**82,160,045**	**802,075,297**
	PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTERESTS	**209,751**	**294,673**
	PROFIT (LOSS) ATTRIBUTABLE TO THE GROUP	**81,950,294**	**801,780,624**

(*) *The figures for 2015 have been reclassified to reflect the introduction of new accounting standards with effect from 1 January 2016, resulting in elimination from the income statement of the extraordinary section (items E21 and E22) and consequent reclassification of items previously booked to extraordinary income and expenses in the ordinary section by nature.*

Consolidated Cash Flow Statement

Euro units			Year 2016	Year 2015
A	**Cash flows from operating activities**			
		Profit (loss) for the year	82,160,045	802,075,297
		Income taxes	(20,043,530)	71,144,183
		Interest expense/(income)	(7,506,663)	(5,621,428)
		(Dividends)	(407,140)	(3,386,422)
		(Gains)/Losses from the disposal of assets	1,631,054	674,500
		Extraordinary gains on the disposal of KGM	0	(822,752,743)
	1	**Profit (loss) for the year, before income taxes, interest, dividends, gains/losses from disposals**	**55,833,766**	**42,133,387**
		Adjustments for non-monetary items that have no counter-entry in net working capital		
		Provisions	28,104,515	22,523,266
		Provisions to severance indemnities	834,861	725,768
		Amortisation and depreciation	99,782,622	62,946,340
		Write-downs/-ups of equity investments	1,453,677	2,437,203
		Write-downs of current securities	3,358,864	0
		Other impairment losses	5,921,271	17,145,370
		Adjustments to derivative financial assets and liabilities which did not entail monetary movements	(783,687)	0
		Other adjustments for non-monetary items	0	(4,296,682)
	2	**Cash flow before changes in net working capital**	**194,505,889**	**143,614,652**
		Change in net working capital		
		Decrease/(increase) in inventories	(29,937,509)	(95,189,521)
		Decrease/(increase) in trade receivables	(83,169,804)	(8,737,465)
		Increase/(decrease) in trade payables	86,055,041	21,808,095
		Decrease/(increase) in prepayments and accrued income	(4,087,496)	(1,227,368)
		Increase/(decrease) in accruals and deferred income	784,008	(553,739)
		Other changes in net working capital	33,010,077	(17,781,812)
	3	**Cash flow after changes in net working capital**	**197,160,206**	**41,932,842**
		Other adjustments		
		Interest received/(paid)	7,506,663	5,621,428
		(Income taxes paid)	(21,281,663)	(69,246,473)
		Dividends received	407,140	3,386,422
		(Use of provisions)	(15,018,001)	(9,423,215)
		(Severance indemnities paid)	(1,365,113)	(1,146,119)
	Total cash flow from operating activities (A)		**167,409,232**	**(28,875,115)**

		Year 2016	Year 2015
B	**Cash flows from investing activities**		
	Tangible assets		
	(Investments)	(90,754,934)	(53,671,124)
	Realised price for divestments	3,675,201	2,726,194
	Intangible assets		
	(Investments)	(15,237,300)	(12,024,122)
	Realised price for divestments	559,010	0
	Financial assets		
	(Investments)	0	(2,466,427)
	Realised price for divestments	1,887,021	1,167,755,773
	Business unit acquisition	(709,500,395)	(51,799,786)
	Non-current financial assets		
	(Investments)	(390,222,736)	(9,497,578)
	Total cash flows from investing activities (B)	**(1,199,594,133)**	**1,041,022,930**
C	**Cash flows from financing activities**		
	Third-party funds		
	Increase (decrease) in payables to banks	(7,017,529)	6,732,050
	New financing	400,495,877	0
	(Repayment of debt)	0	(270,120)
	Own funds		
	(Dividends and advance dividends paid)	(25,200,002)	(13,425,001)
	Total cash flows from financing activities (C)	**368,278,346**	**(6,963,071)**
	Increase (decrease) in cash and cash equivalents (A ± B ± C)	**(663,906,555)**	**1,005,184,744**
	Exchange rate effect	(884,492)	2,311,456
	Cash and cash equivalents at year-start	**1,336,074,911**	**328,578,711**
	Cash and cash equivalents at year-end	**671,283,864**	**1,336,074,911**
	Business unit acquisition		
	Total consideration paid	(712,981,377)	(51,807,315)
	of which cash	(712,981,377)	(51,807,315)
	Cash and cash equivalents acquired	3,480,982	7,529
	Carrying amount of assets/liabilities acquired	712,981,377	51,807,315

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Notes to the Consolidated Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS – STRUCTURE AND CONTENTS

The Consolidated Financial Statements of the Lavazza Group (hereinafter also "Group") for the year ended 31 December 2016 were prepared in compliance with the provisions recently introduced by Italian Legislative Decree 139 of 18 August 2015, which enacted the European Directive 2013/34/EU.

The Consolidated Financial Statements consist of the Balance Sheet, the Income Statement, the Cash Flow Statement and these Notes. The financial statements have been prepared in compliance with the provisions set forth in Articles 2423-*ter*, 2424, 2424-*bis*, 2425, 2425-*bis*, 2425-*ter* of the Italian Civil Code.

Items omitted from the financial statements are understood to have nil balances in both the reporting year and the previous year.

The Notes are complemented by the Statement of Changes in Equity and the Directors' Report on Operations.

The Notes to the Consolidated Financial Statements are intended to illustrate, analyse and, where appropriate, also integrate financial statement figures, and provides the information required under Article 2427 and 2427-*bis* of the Italian Civil Code.

ACCOUNTING STANDARDS APPLIED FROM 1 JANUARY 2016

Publication of Legislative Decree 139 of 18 August 2015 in Italy's *Official Journal* on 4 September 2015 marked the completion of the transposition procedure for Directive 2013/34/EU. The above Decree updates the provisions of the Italian Civil Code governing individual financial statements and the provisions of Legislative Decree 127/1991 governing consolidated financial statements.

The Decree entered into effect on 1 January 2016 and applies to financial statements for financial years starting on or after that date.

The process of revising, updating and supplementing Italian GAAP to comply with the provisions of Legislative Decree 139/2015 was completed by the Italian Accounting Standard-Setter (OIC) in 2016. The main impacts are the result of the following changes:

- Introduction of the cash flow statement as a mandatory component of the financial statements. The contents of the cash flow statement are governed by OIC 10.
- Introduction of the amortised cost method and discounting for the measurement of some types of medium-to-long term receivables, payables and securities of a financial nature. The Company has exercised the option afforded by Article 12, paragraph 2, of Legislative Decree 139/2015 for prospective application, without any change to the measurement criteria for receivables, payables and securities recognised prior to 1 January 2016.
- Introduction of a dedicated accounting standard (OIC 32) on recognition, classification and measurement of derivative financial instruments, fair value measurement techniques and the disclosures to be presented in the Notes to the Financial Statements, superseding OIC 3 – *Financial Instruments: Disclosures in the Notes and the Report on Operations*.
- Change in the methods for determining the amortisation period for goodwill. Goodwill is amortised on the basis of its useful life, with a maximum limit of 20 years, and is amortised over a period of no more than ten years if its useful life cannot be estimated reliably. The Group has exercised the option afforded by Article 12, paragraph 2, of Legislative Decree 139/2015 for prospective application of this change, thereby without changing the useful lives of goodwill recognised prior to 1 January 2016.

- Elimination from the income statement of the extraordinary section (items E21 and E22) and consequent reclassification of items previously booked to extraordinary income and expenses in the ordinary section by nature. The amount and nature of individual elements of costs or revenues deemed exceptional in amount or impact must nonetheless continue to be disclosed in the Notes.
- Introduction of dedicated items of the balance sheet and income statement for balances relating to "sister companies" (companies subject to the control of the parent companies).
- Elimination from the balance sheet of section III, item 4) Treasury shares, which has been reclassified to the equity and liabilities side of the balance sheet, section X, Negative reserve for treasury shares in portfolio, resulting in the reallocation of the reserve for treasury shares in portfolio (former section V of equity) to an extraordinary reserve.

CONSOLIDATION AREA AND CHANGES IN GROUP STRUCTURE

The Consolidated Financial Statements include the Financial Statements for the year ended 31 December 2016 of Luigi Lavazza S.p.A., the Parent Company, and the subsidiaries in which Luigi Lavazza S.p.A., directly or indirectly, holds an interest in excess of 50% or over which it exercises *de facto* control.

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

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

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

A reconciliation of equity and result at 31 December 2016 drawn from the Separate Financial Statements of the Parent Company and those presented in the Consolidated Financial Statements at the same date is provided in the section "Reconciliation Between the Financial Statements of Luigi Lavazza S.p.A. and the Consolidated Financial Statements at 31 December 2016".

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

At 31 December 2016 the consolidation area differed from the previous year as a result of the acquisition of full ownership by the Parent Company of Carte Noire S.a.s., and hence of its fully owned subsidiary Carte Noire Operations S.a.s. The transaction was finalised on 29 February 2016 and is part of the process of acquiring the business unit that produces, sells and distributes coffee products under the Carte Noire brand in Europe, and mainly in France.

The subsidiary Carte Noire S.a.s. is a trading company that distributes coffee products under the Carte Noire brand on the French market, whereas its subsidiary Carte Noire Operations S.a.s. produces Carte Noire products for the Parent Company on a contract manufacturing basis at its plant located in Lavérune, France.

It should also be noted that during the year, as part of the process of reorganising the Group, the Parent Company contributed securities and equity investments with a total value of €21.3 million, classified as financial assets, to the subsidiary Lavazza Capital S.r.l.

Furthermore, the subsidiary Lavazza France S.a.s. contributed its business unit with a value of €4.6 million responsible for the sale and distribution of coffee products under the Lavazza brand through the Retail channel in France to the subsidiary Carte Noire S.a.s. The effects of such intra-Group transactions on the income statement and balance sheet were eliminated when preparing the consolidated financial statements.

The equity investments in the direct subsidiary Lavazza Maroc S.a.r.l., the direct subsidiary Immobiliare I.N.N.E.T S.r.l., the direct subsidiary Lavazza Trading (Shenzhen) Co. Ltd, and the affiliate International Coffee Partners G.m.b.H. have been measured at cost as they are not material, in that the inclusion of these companies in the consolidated financial statements would not result in a material impact on the Group's revenues, assets and other operating and financial indicators.

CONSOLIDATION CRITERIA

The main consolidation criteria used are as follows:

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

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

Currency	2016 average exchange rate	2016 Year-end	2015 average exchange rate	2015 Year-end
US Dollar	1.11	1.05	1.11	1.09
Pound Sterling	0.82	0.86	0.73	0.73
Brazilian Real	3.86	3.43	3.70	4.31
Swedish Krona	9.47	9.55	9.35	9.19
Indian Rupee	74.38	71.59	71.20	72.02
Australian Dollar	1.49	1.46	1.54	1.49
Danish Krone	7.45	7.43	7.46	7.46
Argentine Peso	16.34	16.75	10.23	14.10

BASIS OF PREPARATION AND MEASUREMENT

The Consolidated Financial Statements for the year ended 31 December 2016 have been prepared in compliance with the Italian Civil Code, interpreted and supplemented by the accounting standards drawn up and revised by the Italian Accounting Standard Setter (OIC) and, in the absence of the former, and where no conflict exists, the standards issued by the International Accounting Standards Board (IASB).

In accordance with Articles 2423 and 2423-*bis* of the Italian Civil Code, the financial statements have been prepared on the basis of the going concern assumption, according to the general principles of prudence, accrual basis accounting and materiality, while taking account of the prevalence of the substance of a transaction or contract.

The criteria applied in measuring line items and determining adjustments are consistent with the provisions of the Italian Civil Code and are primarily set out under Article 2426.

The main measurement criteria adopted are illustrated below.

INTANGIBLE ASSETS

Intangible assets are recognised at purchase or production cost, including ancillary charges and directly attributable costs, adjusted in prior years for revaluations pursuant to Laws 408/1990, 342/2000, 350/2003 and 266/2005.

The cost of intangible assets is systematically amortised on a straight-line basis each year, considering the residual useful life of the asset. The rates applied are set out in the section of the Notes on Assets.

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

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

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

Concessions, licences, trademarks and similar rights, where purchased for consideration, are recognised at the price paid by the Company to obtain them and are amortised according to their useful lives, which may not exceed the legal or contractual limit. The useful lives of trademarks must not exceed 20 years.

Goodwill is recognised if it is purchased for consideration and is amortised according to its useful life.

The Company has exercised the option for prospective application, pursuant to Article 12, paragraph 2, of Legislative Decree 139/2015, of the changes to the method for determining the amortisation period for goodwill.

Consequently, goodwill recognised prior to the year beginning on 1 January 2016 is amortised over a period of no more than five years or, where the useful life is greater, over a period of no more than 20 years.

Goodwill recognised on or after 1 January 2016 is amortised according to its useful life, with a maximum limit of 20 years, and over a period of no more than ten years when its useful life cannot be estimated reliably.

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

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

TANGIBLE ASSETS

Tangible assets are recognised at purchase or internal production cost, revalued where required, in compliance with the monetary revaluation laws, as indicated in the relevant table.

As regards goods acquired from third parties, the purchase cost includes auxiliary charges and direct and indirect costs, to the extent reasonably attributable to the asset, from the period of production and for its remaining useful life.

Assets acquired through contribution or merger are recognised at the contribution value established in the pertinent documents on the basis of the related appraisal.

The cost of internally produced assets includes all costs directly attributable to the asset, in addition to the share of general production costs reasonably attributable to the asset with regard to the production period, until the asset is ready for use.

Ordinary maintenance costs are recognised to the income statement for the financial year in which they are incurred.

The costs of improvements and incremental expenses, including extraordinary maintenance costs, in addition to the costs of leasehold improvements capable of being separated from the assets in question, which give rise to a significant, measurable increase in the capacity, productivity or security of the assets, or which extend their useful lives, qualify as capitalisable costs and are accounted for as an increase in the value of the assets to which they refer, within the limits of the recoverable amount of the asset.

Tangible assets are depreciated on a straight-line basis each year. Depreciation is based on economic and technical rates taking account of the remaining useful lives of the assets. The rates applied are indicated in the Notes on Assets. Depreciation rates for assets put into operation during the year are reduced to 50%, under the assumption that purchases are evenly distributed throughout the year. Land is not subject to depreciation.

When it is decided to dispose of an intangible asset, it is reclassified to current assets and then measured at the lesser of its net book value and the presumed realisable value based on market performance, i.e., the price of sale in the course of normal operation, net of direct selling and disposal costs. Assets intended for sale are no longer subject to depreciation.

Obsolete assets and, more generally, assets that will no longer be used or useable in the production cycle on a permanent basis, are measured at the lesser of net carrying amount and recoverable amount, and are no longer subject to depreciation.

GRANTS TOWARDS TANGIBLE AND INTANGIBLE ASSETS

Equipment grants are recognised when it is reasonably certain that the conditions for receipt of the grant have been met and the grants will be disbursed.

They are accounted for according to the indirect method, whereby a grant indirectly reduces the cost of the fixed assets to which it refers, by booking them to item A5 of the income statement, Other income and revenues, and then deferred to subsequent years by recognising deferred income. Amortisation and depreciation of fixed assets are therefore calculated on the basis of the value of the assets, gross of the grants received.

IMPAIRMENT LOSSES ON TANGIBLE AND INTANGIBLE ASSETS

At each balance sheet date, the Company assesses whether there are any indications that tangible and intangible assets (including goodwill) may have become impaired.

If such signs exist, the carrying amount of the asset is reduced to its recoverable amount, determined as the greater of fair value net of costs to sell and value in use. When the recoverable amount of an individual asset cannot be estimated, the company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. The value in use of an asset is calculated by determining the present value of the expected future cash flows according to a discount rate that reflects the current market assessment of the time value of money and the specific risks of the asset. An impairment loss is recognised if the recoverable amount is less than the net carrying amount.

Impairment losses are recovered if the grounds for recognising them no longer apply. The amount of the recovery cannot exceed the value that would have resulted if the impairment loss had never been recognised. No recoveries are recognised on goodwill and capitalised expenses.

FINANCE LEASES

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

EQUITY INVESTMENTS AND FINANCIAL RECEIVABLES

EQUITY INVESTMENTS

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

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

FINANCIAL RECEIVABLES

Pursuant to Article 12, paragraph 2, of Legislative Decree 139/2015, the Company 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 Group has exercised this option for the financial statements for the year ended 31 December 2016.

SECURITIES

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

Securities intended to be held by the Company for the long term are classified as fixed assets and measured at amortised cost, where applicable, less any impairment losses.

Securities recognised as current financial assets — involving temporary investment of excess liquidity that are not intended for being held by the Company for the long term — are measured at the lesser of purchase cost, including ancillary charges, and presumable market value.

INVENTORIES

Inventories are recognised at the lesser of either purchase and/or production cost and expected realisable value based on market trends.

The method used to determine the cost is the weighted average cost. The purchase cost includes directly related ancillary charges. The production cost includes directly attributable costs and the reasonably attributable share of indirect production costs, with the inclusion of finance expense up to the limit of the realisable value of the asset.

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

RECEIVABLES AND PAYABLES

Pursuant to Article 12, paragraph 2, of Legislative Decree 139/2015, the Company has opted for prospective application of the new basis of measurement of 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 values, which correspond 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 immaterial to a truthful and accurate representation.

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

CASH AND CASH EQUIVALENTS

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

ACCRUALS AND DEFERRALS

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

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are allocated to cover losses or liabilities of a stated nature or certain or probable existence, the amount or date of which were not identified at year-end. Provisions reflect the best possible estimate on the basis of available elements.

Risks for which it is merely possible that a liability will emerge are disclosed in the Notes, without recognising an accrual to a provision for risks and charges.

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

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

EMPLOYEE LEAVING INDEMNITIES

In the case of the Parent Company and the other Italian companies included in the consolidated financial statements, the provision is determined according to applicable legislation and collective and supplementary company labour contracts. Law 296 of 27 December 2006 (the 2007 Financial Law) introduced the rules for employee leaving indemnities accrued from 1 January 2007. As a result of the supplementary pension reform:

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

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

COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

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

REVENUES AND COSTS

Sales and service revenues are recognised on an accrual basis, net of adjusting entries such as returns, discounts, allowances and premiums, in addition to taxes directly associated with sale and any changes in estimates.

Sales of products are recognised at the time ownership is transferred, which normally coincides with shipment or delivery.

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

Costs and expenses are recognised on an accrual basis, net of adjusting entries such as returns, discounts, allowances and premiums and any changes in estimates.

DIVIDENDS

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

FINANCE INCOME AND EXPENSE

All income and expenses associated with the company's financial operations are recognised on an accrual basis.

Gains and losses on the translation of items in foreign currencies are booked to item C.17-*bis* of the Income Statement "Exchange gains and losses".

INCOME TAXES

Income taxes are recognised according to an estimate of taxable income in application of tax laws in force, while taking account of applicable exemptions and tax credits to which the Company is entitled.

The Parent Company and the Group's Italian companies participate in the national tax consolidation programme pursuant to Articles 117/129 of Consolidated Law on Income Taxes (T.U.I.R.). The parent company, Finlav S.p.A., acts as consolidating company and calculates a single taxable profit or loss for the group of companies participating in tax consolidation, which thus benefit from the ability to set off taxable profit against tax losses in a single return.

If the participating companies contribute all of their taxable profit to tax consolidation, they recognise a payable to the parent company equal to the corporate income tax to be paid, as determined according to the consolidation contract.

The payable for regional production tax and the payables for the income taxes of foreign companies are booked to Tax payables, net of any prepayments made during the year.

Deferred tax assets and liabilities are calculated based on temporary differences between the carrying amounts of assets and liabilities according to Italian GAAP and their value for tax purposes. Such assets and liabilities are measured by taking account of the tax rate that the Company is expected to bear in the year in which the differences concerned will contribute to taxable profit or loss, considering the tax rates in effect or already enacted at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, based on the prudence principle, when there is reasonable certainty of taxable income of no less than the amount of the differences to be offset during the years in which those differences will be reversed.

Deferred tax liabilities are instead recognised on all taxable temporary differences.

Deferred tax liabilities on tax-suspended reserves and provisions are recognised when it is expected that the reserves will be distributed or otherwise used, and the distribution or use of the same will give rise to tax charges.

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

Transactions in currencies other than the local currency of the companies included in the consolidated financial statements have been recognised at the exchange rate applicable at the moment the transactions were carried out.

Assets and liabilities in currencies other than the local currency of the companies that participate in the tax consolidation programme — except inventories, intangible and tangible assets, as well as equity investments and non-current securities — are analytically adjusted to the exchange rate at year-end, directly recognised through profit or loss. Any net gains arising from the year-end exchange rate adjustments for items in foreign currency contribute to the formation of the net result of each Group company participating in the tax consolidation programme. With reference to the Parent Company, upon approval of the financial statements and proposal for the allocation of the net result, any net gains arising from the year-end exchange rate adjustment for items in foreign currency are recognised in a restricted reserve until the profit is realised.

DERIVATIVES

Derivative financial instruments are used for hedging purposes with the aim of reducing foreign exchange risk, interest rate risk and changes in market prices. All derivative financial instruments are measured at fair value in accordance with OIC 32 – *Derivative Financial Instruments*.

Derivative financial instruments were contracted in 2016 in order to hedge against the risks associated with fluctuations in foreign exchange rates and interest rates.

In accordance with the provisions of the new accounting standard OIC 32, derivative financial instruments are subject to hedge accounting if, and only if, at the inception of the hedge, the hedge has been formally designated, hedging is highly effective and the efficacy of the hedge can be reliably measured.

The derivative financial instruments entered into during the year meet the requirements to be considered hedges and thus to be subject to hedge accounting and are of the cash flow hedge variety.

In the case of derivatives hedging against the risk of changes in foreign exchange rates, the difference (premium or discount) resulting from the comparison of the amount in foreign currency envisaged in the forward contracts entered into to hedge against foreign exchange risk, translated at the exchange rate at the date of the original transaction, and the amount in foreign currency of the contract at the agreed forward rate, is booked to the income statement when the hedged transaction occurs, in accordance with paragraph 89 of the new version of OIC 32.

Derivative financial instruments with positive fair values are classified to current assets (item C.III.5 Financial derivative assets) or to provisions for risks when their fair values are negative (item B3 Provision for derivative financial derivative liabilities).

Changes in the fair value of the effective portion of hedging derivative financial instruments are accounted for through the equity reserve for the hedging of expected cash flows.

RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS OF LUIGI LAVAZZA S.P.A. AND THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

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

Euro units	**Result for the year**	**Equity**
Result for the year and equity of Luigi Lavazza S.p.A.	**88,181,692**	**2,114,920,309**
Results of subsidiaries	19,218,624	0
Difference between the carrying amount of equity investments and equity of the subsidiaries	0	39,032,191
Consolidation differences and relevant amortisation and write-downs	(884,100)	17,800,706
Reversal of equity investments	6,213,791	0
Elimination of intragroup dividends	(11,751,346)	0
Elimination of intragroup margins and gains	(15,153,391)	(17,751,970)
Adjustment to group accounting standards	(2,181,764)	(4,644,026)
Adjustment of equity investments valued at equity	16,549	240,756
Other	(1,500,010)	(1,499,894)
Minority interests	(209,751)	(1,518,079)
Group's net profit and equity	**81,950,294**	**2,146,579,993**

Notes to the Consolidated Financial Statements

Balance Sheet - Assets

FIXED ASSETS

INTANGIBLE ASSETS

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

Euro units	Balance at 31/12/2015	Increases	(Decreases)	Reclassifications	Exchange delta	Consolidation area delta	Balance at 31/12/2016
Start-up and expansion costs							
Gross value	5,785	0	0	0	0	0	5,785
(Accumulated amortisation)	(5,785)	0	0	0	0	0	(5,785)
Net value	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Development costs							
Gross value	2,759,720	3,475,242	0	0	0	0	6,234,962
(Accumulated amortisation)	(550,163)	(1,245,992)	0	0	0	0	(1,796,155)
Net value	**2,209,557**	**2,229,250**	**0**	**0**	**0**	**0**	**4,438,807**
Industrial patents and intellectual property rights							
Gross value	1,488,133	0	(110,306)	(1,042,544)	0	1,042,544	1,377,827
(Accumulated amortisation)	(1,443,616)	(23,267)	110,306	1,004,843	0	(1,004,843)	(1,356,578)
Net value	**44,517**	**(23,267)**	**0**	**(37,701)**	**0**	**37,701**	**21,249**
Concessions, licenses and similar rights							
Gross value	27,544,686	152,033,292	(35,789)	0	39,927	0	179,582,116
(Accumulated amortisation)	(13,098,288)	(8,178,778)	35,615	(1,436)	(37,406)	0	(21,280,293)
Net value	**14,446,398**	**143,854,514**	**(174)**	**(1,436)**	**2,521**	**0**	**158,301,823**
Trademarks							
Gross value	35,978,909	118,120,310	0	0	0	0	154,099,219
Write-ups	303,949,656	0	0	0	0	0	303,949,656
(Write-down provision)	(3,623,965)	0	0	0	0	0	(3,623,965)
(Accumulated amortisation)	(317,668,012)	(6,551,902)	0	0	0	0	(324,219,914)
Net value	**18,636,588**	**111,568,408**	**0**	**0**	**0**	**0**	**130,204,996**
Goodwill							
Gross value	82,422,165	343,200,000	0	2,965,401	98,471	79,786,556	508,472,594
(Write-down provision)	(3,877,769)	0	0	0	0	0	(3,877,769)
(Accumulated amortisation)	(56,069,136)	(18,977,939)	0	0	(67,630)	0	(75,114,704)
Net value	**22,475,260**	**324,222,061**	**0**	**2,965,401**	**30,841**	**79,786,556**	**429,480,121**
Intangible assets in progress and advances							
Gross value	4,782,767	11,147,747	0	(14,939,395)	0	0	991,120
Net value	**4,782,767**	**11,147,747**	**0**	**(14,939,395)**	**0**	**0**	**991,120**

Euro units	Balance at 31/12/2015	Increases	(Decreases)	Reclassifications	Exchange delta	Consolidation area delta	Balance at 31/12/2016
Other intangible assets							
Gross value	16,393,314	1,030,766	115,256	13,068,021	120,677	0	30,728,033
(Accumulated amortisation)	(10,068,370)	(6,018,959)	137,868	(1,004,197)	(32,703)	0	(16,986,362)
Net value	**6,324,944**	**(4,988,193)**	**253,124**	**12,063,824**	**87,974**	**0**	**13,741,671**
Total intangible assets							
Gross value	171,375,479	629,007,357	(30,839)	51,483	259,075	80,829,100	881,491,656
Write-ups	303,949,656	0	0	0	0	0	303,949,656
(Write-down provision)	(7,501,734)	0	0	0	0	0	(7,501,734)
(Accumulated amortisation)	(398,903,370)	(40,996,837)	283,789	(790)	(137,739)	(1,004,843)	(440,759,791)
Net value	**68,920,031**	**588,010,520**	**252,950**	**50,693**	**121,336**	**79,824,257**	**737,179,787**

Year movements were chiefly attributable to the acquisition of the Carte Noire business unit. On 29 February 2016, the Company finalised the acquisition of a business unit responsible for the sale and distribution of coffee products under the Carte Noire brand. The total value of the acquisition, including ancillary costs and all assets and liabilities, amounted to €713 million. The allocation of the purchase price to the current values of the assets acquired was carried out with the support of an independent expert.

The results at Lavazza Group level were as follows:

Euro million	
Goodwill acquired by the Parent Company	343.2
Ancillary costs capitalised on goodwill	3.0
Trademark acquired by the Parent Company	112.5
Trademark registration rights	5.6
Know-how acquired by the Parent Company	149.8
Goodwill acquired with the equity investment in Carte Noire S.a.s.	64.0
Consolidation differences — Carte Noire S.a.s.	0.6
Consolidation differences — Carte Noire Operations S.a.s.	15.2
Intangible assets	**693.9**
Industrial plants acquired with the equity investment in Carte Noire Operations S.a.s.	36.3
Tangible assets	**36.3**
TOTAL FIXED ASSETS ACQUIRED	**730.2**
Employee leaving indemnities acquired with the equity investments in Carte Noire S.a.s. and Carte Noire Operations S.a.s.	(4.8)
Provision of deferred tax liabilities and other provisions acquired with the equity investment in Carte Noire Operations S.a.s.	(4.6)
Employee leaving indemnities and provisions for risks and charges	**(9.4)**
Receivables and other current assets acquired with the equity investment in Carte Noire Operations S.a.s.	4.0
Payables to personnel and other short-term liabilities acquired with the equity investments in Carte Noire S.a.s. and Carte Noire Operations S.a.s.	(15.3)
Cash and cash equivalents acquired with the equity investment in Carte Noire Operations S.a.s.	3.5
Current assets and liabilities	**(7.8)**
TOTAL OTHER ASSETS AND LIABILITIES ACQUIRED	**(17.2)**
TOTAL VALUE OF ACQUISITION	**713.0**

The item "Development costs" primarily relates to costs incurred for the industrialisation of capsule-based coffee machines intended for sale. The increase in development costs was mainly due to projects aimed at improving the quality of Carte Noire capsules, developing compostable capsules and creating three new coffee machines.

The item "Licences and similar rights" includes the right to use software products, in addition to the know-how acquired during the year as a result of the Carte Noire transaction (€149.8 million) and the Merrild know-how obtained in the previous year (€11.7 million), both amortised according to a useful life of 20 years.

The item "Trademarks" includes the Carte Noire trademark acquired in the reporting year, as well as the Merrild trademark acquired in 2015 for €17 million and amortised over a useful life of 20 years, and the Eraclea and Caffè di Roma trademarks, both amortised according a useful life of 10 years. The Carte Noire trademark is amortised over a useful life of 20 years to take account of the brand's historical position of leadership on the coffee market in France. The recognised trademarks are periodically tested for impairment.

The item "Goodwill", which also includes consolidation differences, primarily consists of the total goodwill recognised in 2015 (€21.8 million) following the acquisition of the Merrild business unit, and the goodwill recognised in 2016 with the acquisition of the Carte Noire business unit (€426 million).

The above goodwill was amortised according to a useful life of 20 years, in keeping with the useful lives of the other intangible assets acquired in the Merrild and Carte Noire transactions.

The item "Goodwill" also includes the consolidation difference of €0.5 million recognised in 2015 following the acquisition of Brasilia S.a.s., amortised over a period of five years.

Goodwill was tested for impairment taking account the Group's strategic focus, which was confirmed with a view towards strong consistency between the business model pursued and the geographical area. The approach has been differentiated based on the individual local situations and business segments. The assessments did not identify any need to recognise impairment losses in 2016.

The item "Other intangible assets" primarily includes development costs incurred to in order to adapt and improve the Group's IT and reporting systems.

The consolidation area delta refers to the intangible assets recognised following the inclusion in the consolidation area of the equity investments in Carte Noire S.a.s. and Carte Noire Operations S.a.s.

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

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

(*) As specified above, the useful life of the intangible assets acquired with the Carte Noire and Merrild business units has been estimated at 20 years. This assessment is supported by the leading position of the Carte Noire brand in France and that of the Merrild brand in Denmark and the Baltics, as well as by the sector of reference, which is stable and does not present particular factors of technological obsolescence.

TANGIBLE ASSETS

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

Euro units	Balance at 31/12/2015	Increases	(Decreases)	Reclassifications	Exchange delta	Consolidation area delta	Balance at 31/12/2016
Land and buildings							
Gross value	143,129,920	601,818	(6,022,969)	2,017,203	(28,658)	8,665,513	148,362,827
Write-ups	65,869,557	0	(2,967,070)	0	0	0	62,902,487
(Write-down provision)	(10,861,230)	(5,318,857)	2,491,754	0	0	(5,053,423)	(18,741,756)
(Accumulated depreciation)	(70,327,559)	(5,401,707)	2,757,324	(1,318)	58,713	0	(72,914,547)
Net value	**127,810,688**	**(10,118,746)**	**(3,740,961)**	**2,015,885**	**30,055**	**3,612,090**	**119,609,011**
Plant and machinery							
Gross value	500,771,844	972,886	(17,078,433)	37,385,961	68,709	52,544,395	574,665,362
Write-ups	52,168,829	0	(984,176)	0	0	0	51,184,653
(Write-down provision)	(1,009,377)	0	543,005	0	(48,391)	0	(514,763)
(Accumulated depreciation)	(446,079,670)	(32,202,955)	15,771,766	(229,454)	0	(29,162,607)	(491,902,920)
Net value	**105,851,626**	**(31,230,069)**	**(1,747,838)**	**37,156,507**	**20,318**	**23,381,788**	**133,432,332**
Industrial and commercial equipment							
Gross value	163,325,941	25,060,582	(23,983,756)	2,571,319	1,257,696	254,773	168,486,555
Write-ups	1,165,417	0	0	0	0	0	1,165,417
(Write-down provision)	(1,754,898)	(602,414)	1,223,749	0	(73,278)	(217,057)	(1,423,898)
(Accumulated depreciation)	(122,133,644)	(17,815,748)	22,198,482	333,168	(812,977)	0	(118,230,719)
Net value	**40,602,816**	**6,642,420**	**(561,525)**	**2,904,487**	**371,441**	**37,716**	**49,997,355**
Furniture and fittings							
Gross value	22,401,675	1,656,489	(947,848)	1,977,735	86,308	0	25,174,359
(Accumulated depreciation)	(17,714,939)	(1,555,284)	835,041	(717,654)	(90,503)	0	(19,243,339)
Net value	**4,686,736**	**101,205**	**(112,807)**	**1,260,081**	**(4,195)**	**0**	**5,931,020**
Means of transport							
Gross value	1,209,012	91,089	(174,699)	(9,218)	(4,570)	0	1,111,614
(Accumulated depreciation)	(1,154,792)	(31,248)	171,673	(2,056)	3,842	0	(1,012,581)
Net value	**54,220**	**59,841**	**(3,026)**	**(11,274)**	**(728)**	**0**	**99,033**
Electronic machinery							
Gross value	24,135,608	3,526,020	(480,586)	(504,740)	(21,335)	512,660	27,167,627
(Accumulated depreciation)	(21,019,746)	(1,571,658)	475,970	470,195	19,382	(470,195)	(22,096,052)
Net value	**3,115,862**	**1,954,362**	**(4,616)**	**(34,545)**	**(1,953)**	**42,465**	**5,071,575**
Other assets							
Gross value	2,113,309	157,023	(68,321)	(98,304)	50,448	0	2,154,155
(Accumulated depreciation)	(1,775,962)	(207,185)	68,028	85,132	(27,256)	0	(1,857,243)
Net value	**337,347**	**(50,162)**	**(293)**	**(13,172)**	**23,192**	**0**	**296,912**
Tangible assets in progress and advances							
Gross value	32,986,903	54,995,487	0	(43,328,662)	3,894	11,267,060	55,924,682
(Accumulated depreciation)	(909,451)	0	196,475	0	2,209	0	(710,767)
Net value	**32,077,452**	**54,995,487**	**196,475**	**(43,328,662)**	**6,103**	**11,267,060**	**55,213,915**
Total tangible assets							
Gross value	890,074,212	87,061,394	(48,756,612)	11,294	1,412,492	73,244,401	1,003,047,181
Write-ups	119,203,803	0	(3,951,246)	0	0	0	115,252,557
(Write-down provision)	(14,534,956)	(5,921,271)	4,454,983	0	(119,460)	(5,270,480)	(21,391,184)
(Accumulated depreciation)	(680,206,312)	(58,785,785)	42,278,284	(61,987)	(848,799)	(29,632,802)	(727,257,401)
Net value	**314,536,747**	**22,354,338**	**(5,974,591)**	**(50,693)**	**444,233**	**38,341,119**	**369,651,153**

The write-downs for the year relating to the items "Land and buildings" referred to the properties where the Company has currently moved as part of the reorganisation process involved in the planned transfer of operations to the new headquarters, as well as the write-down of several industrial properties located in the production plants in Settimo Torinese and Gattinara.

A preliminary agreement was signed during the year for the sale of a property that housed the Company's former offices. The value of this property, net of previous depreciation and impairment losses, has been reclassified to item C) V) "Intangible assets held for sale" in accordance with the new accounting standard OIC 16.

The item "Industrial and commercial equipment" mainly includes coffee machines and equipment on free loan for use and/or lease to customers and dies in the possession of third parties for the manufacture of machine components.

Write-downs for the year referred to coffee machines on free loan to customers whose net book value was deemed no longer recoverable.

The item "Tangible assets in process and advances" mainly includes the investments made in industrial plant and machinery not yet recognised, in addition to payments on account to a leasing company (€24,728,098) following the signing in June 2011 of a finance lease agreement governing the construction of a real-estate complex located in the city of Turin that is to become the company's new headquarters.

Under the above finance lease agreement, in 2013 the Group came into possession of an initial lot that is currently hosting the Institute of Applied Arts and Design (IAAD). In accordance with accounting standards, the value of the asset — which was €5,025,051 in 2014 and €4,867,440 in 2015 — was recognised under "Land and buildings," with the corresponding entry amongst liabilities of a financial payable of like amount, net of advances already paid. Amortisation and the interest accrued on the residual principal instalments were immediately recognised through profit or loss.

The Directors' Report on Operations provides detailed information on capital expenditure.

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

• Buildings	3%
• Plant and machinery	5.5% - 20%
• Equipment and espresso machines	12.5% - 40%
• Furniture and fittings	12%
• Means of transport	20% - 25%
• Electronic machinery	18% - 20%
• Dies	12.5% - 40%

FINANCIAL ASSETS

EQUITY INVESTMENTS

The following table provides a list of the equity investments recognised in the Consolidated Financial Statements as of 31 December 2016:

Euro units	% held	31/12/2016	31/12/2015	Changes
Equity investments recognised at cost:				
a) Subsidiaries				
Lavazza Trading (Shenzhen) Co. Ltd.	100	1,000,000	1,000,000	0
Lavazza Maroc S.a.r.l.	100	904	904	0
Immobiliare I.N.N.E.T. S.r.l.	100	2,002,986	2,002,986	0
Total subsidiaries		**3,003,890**	**3,003,890**	**0**
b) Affiliates				
Espresso Service Proximité S.A. (*)	26	2,028,051	2,011,503	16,548
International Coffee Partners G.m.b.H.	20	25,000	25,000	0
Total affiliates		**2,053,051**	**2,036,503**	**16,548**
c) Other companies				
Casa del Commercio e del Turismo S.p.A.	3	6,094	6,094	0
Air Vallée S.p.A.	2	25,823	25,823	0
Idroelettrica S.c.r.l.	0.1	300	300	0
INV. A.G. S.r.l.	6.09	7,287,658	8,753,950	(1,466,292)
Tamburi Investment Partners S.p.A.	0.96	3,092,733	3,092,733	0
Connect Ventures One LP	2.53	6	6	0
Immobiliare 3 F (formerly Le Foyer du Fonctionnaire)	n.a.	375	375	0
Clubitaly S.p.A.	3.75	4,590,000	4,590,000	0
BRED Banque Populaire S.A.	0.00065	0	3,200	(3,200)
Consorzio Nazionale Imballaggi (Conai)	n.a.	5	5	0
Total other companies		**15,002,994**	**16,472,486**	**(1,469,492)**
Total		**20,059,935**	**21,512,879**	**(1,452,944)**

(*) Valued at equity.

The decreases for the year chiefly referred to the write-down of the equity investment in INV. A.G. S.r.l. amounting to €1,466,292 in accordance with the impairment loss recognised by the said company on the Generali shares held in portfolio and performed to account for the unfavourable stock market performance and earnings and financial position prospects of the investee.

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

Euro units

Company	Registered office	Share capital	Equity	Profit (loss) for the year	% held	Carrying amount
Subsidiaries						
Lavazza Maroc S.a.r.l.	Casablanca	938	53,514	5,759	100	904
Lavazza Trading (Shenzhen) Co. Ltd	Shenzhen	1,120,393	1,073,093	25575	100	1,000,000
Immobiliare I.N.N.E.T S.r.l.	Turin	30,000	219,286	19,175	100	2,002,986
Affiliates						
Espresso Service Proximité S.A.	Bonneuil-sur-Marne	192,440	7,824,616	977,823	26	2,028,051
Internat. Coffee Part. G.m.b.H.	Hamburg	175,000	256,677	5,330	20	25,000

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

OTHER RECEIVABLES

Other receivables due within the next financial year consist mainly of security deposits (€566,667) and financial receivables claimed from Connect Ventures One LP (€583,984), a company that invests in European Web business start-ups.

OTHER SECURITIES

This item amounted to €8,222,790, including long-term investments — mainly in closed-end mutual funds — that the Parent Company transferred to its subsidiary Lavazza Capital S.r.l. in the year, detailed as follows.

Company	31/12/2015	Increases	Decreases	Reclassifications	31/12/2016
DGPA Capital fund	964,827	0	0	0	964,827
Innogest Capital fund	1,930,859	0	(225,305)	0	1,705,554
Ersel Investment Club fund	3,371,451	0	0	0	3,371,451
Debt Opportunities Plus-A Fund	2,180,959	0	0	0	2,180,959
Other Ersel Funds	0	0	0	0	0
Intesa Sanpaolo TV bonds – 15 May 2018	1,539,000	0	0	(1,539,000)	0
Intesa Sanpaolo - TV Cap & Floor bonds – 4 October 2017	500,000	0	0	(500,000)	0
Intesa Sanpaolo TV bonds 23 December 2016	1,546,500	0	(1,546,500)	0	0
Total	**12,033,596**	**0**	**(1,771,806)**	**(2,039,000)**	**8,222,790**

DGPA Capital Fund — 100 units underwritten in 2007, for a total carrying amount of €964,827, with the aim of venture capital investing in primarily unlisted companies with growth potential.

Innogest Capital Fund — 517 units underwritten in 2007, for a total carrying amount of €1,930,859, with the objective of medium-/long-term investment aimed at obtaining equity interests in Italian companies with a strong innovation and technology component. The decrease during the year may be attributed to a partial repayment of the invested capital.

Ersel Investment Club Fund — underwritten in 2008 for a total carrying amount of €3,371,451, with a purpose to invest in listed and unlisted SMEs.

Debt Opportunities Plus-A Fund — 14,008.7 units underwritten for a total carrying amount of €2,180,959.

The Intesa Sanpaolo TV bonds – 23 December 2016 were not contributed to Lavazza Capital S.r.l. and were redeemed for the Parent Company at the end of December 2016 at their natural maturity.

The other bonds have been classified to the item "Other securities" under current assets because they are no longer considered long-term investments.

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

Current assets

INVENTORIES

Stocks at 31 December 2016 consist of the following:

Euro units	31/12/2016	31/12/2015	Changes
Raw materials, ancillaries and consumables	182,912,384	174,228,100	8,684,284
Accumulated depreciation of raw materials, ancillaries and consumables	(510,995)	(1,160,736)	649,741
Raw materials, ancillaries and consumables	**182,401,389**	**173,067,364**	**9,334,025**
Work-in-process	1,265,609	1,829,722	(564,113)
Accumulated depreciation of work-in-process	(100,000)	(78,805)	(21,195)
Work-in-process	**1,165,609**	**1,750,917**	**(585,308)**
Finished products and goods	143,130,945	120,627,328	22,503,617
Accumulated depreciation of finished products and goods	(13,036,008)	(11,950,182)	(1,085,826)
Finished products and goods, net	**130,094,938**	**108,677,146**	**21,417,792**
Advances	**1,958,135**	**1,017,449**	**940,686**
Total	**315,620,072**	**284,512,876**	**31,107,196**

Inventories increased compared to the previous year as a result of the combined effect of quantity and price. Quantity grew in accordance with procurement needs related to the production of Carte Noire-branded coffee products, whereas the price effect was mainly attributable to the fluctuation of the Euro/Dollar exchange on purchases of green coffee.

Finished products increased primarily as a consequence of the acquisition of the Carte Noire business unit, thus reflecting the coffee finished product inventories and promotional and advertising materials in stock at the distribution company Carte Noire S.a.s., as well as plant spares in stock at the production plant Carte Noire Operations S.a.s.

Inventories at 31 December 2016 are recognised net of an inventory write-down provision totalling €13,647,003, which accounts for obsolescence and slow turnover, primarily relating to vending systems and spare parts, advertising materials and plant spares.

RECEIVABLES

TRADE RECEIVABLES

The following table provides a breakdown of trade receivables:

	Balance at 31/12/2016			Balance at 31/12/2015			Changes		
Euro units	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
Trade receivables	369,956,618	313,755	370,270,373	285,689,741	53,393	285,743,134	84,266,877	260,362	84,527,239
Bad debt provision	(8,089,745)	0	(8,089,745)	(11,918,170)	0	(11,918,170)	3,828,425	0	3,828,425
Trade receivables	**361,866,873**	**313,755**	**362,180,628**	**273,771,571**	**53,393**	**273,824,964**	**88,095,302**	**260,362**	**88,355,664**
Financial receivables	39,635,385	18,250,245	57,885,630	37,302,382	25,568,846	62,871,228	2,333,003	(7,318,601)	(4,985,598)
Bad debt provision	(3,608,305)	(1,661,456)	(5,269,761)	(2,863,390)	(2,476,843)	(5,340,233)	(744,915)	815,387	70,472
Financial receivables	**36,027,080**	**16,588,789**	**52,615,869**	**34,438,992**	**23,092,003**	**57,530,995**	**1,588,088**	**(6,503,214)**	**(4,915,126)**
Total	**397,893,953**	**16,902,544**	**414,796,497**	**308,210,563**	**23,145,396**	**331,355,959**	**89,683,390**	**(6,242,852)**	**83,440,538**

There are no receivables falling due beyond five years.

Adjustment to bad debt provisions totalling €8,089,745 was allocated to account for trade receivables subject to litigation or for which enforcement proceedings are underway.

Trade receivables also included financial receivables granted by the subsidiary Cofincaf S.p.A. to customers and amounting to €52,615,869 (of which €16,588,789 due within the next financial year). Adjustment allocations totalling €5,269,761 were made to adjust the nominal value of financial receivables to their presumable realisable value. Financial receivables accrue interest at arm's length conditions.

RECEIVABLES FROM AFFILIATES

This item refers to trade receivables claimed by the Group from the affiliate Espresso Service Proximité S.A.

RECEIVABLES FROM PARENT COMPANIES

This item refers to the receivables claimed from the parent company, Finlav S.p.A., for IRES (corporate income tax) by some Group companies participating in the national tax consolidation programme.

The receivable included also the tax benefit of approximately €1.8 million, as a result of the introduction of Legislative Decree 201/2011 (converted by Law 214 of 27 December 2011), which permits the deduction from IRES (corporate income tax) of IRAP (regional production tax) associated with the taxable portion of the costs of employees and contracted staff effective as of tax period 2007.

TAX RECEIVABLES

The item amounted to €25,055,514 and consists primarily of: VAT credits (of which €8,433,433 claimed by the Parent Company); the credit regarding a tax relief mechanism for investments in operating assets (€2,761,783) pursuant to Article 18 of Legislative Decree 91 of 24 June 2014 (the so-called "Competitiveness Decree"), enacted, with amendments, by Law 116 of 7 August 2014; IRAP income tax credits claimed by the Parent Company, income tax credits claimed by companies not participating in the national tax consolidation programme for a total amount of €3,164,477; and the credit for research and development introduced by the 2015 Stability Law (Law 190/2014) totalling €6,415,963.

DEFERRED TAX ASSETS

Prepaid taxes amounted to €30,004,484 and mainly refer to costs with deferred deductibility attributable to the Parent Company. Deferred tax assets are allocated in relation to negative income components, which are deducted after they accrue. Changes, final balance and description are set out in the relevant table in the Notes on "Taxes for the year".

OTHER RECEIVABLES

Other receivables include:

Euro units	**31/12/2016**	**31/12/2015**	**Changes**
Other receivables:			
From suppliers for advances	8,041,523	5,527,298	2,514,225
Other	3,483,213	1,963,980	1,519,233
Total	**11,524,736**	**7,491,278**	**4,033,458**

The breakdown by geographical area of trade and other receivables is as follows:

Euro units	Italy	Other EU countries	Other European countries	Americas	Australia	Other continents	Total
Trade receivables	173,993,615	184,620,931	8,529,131	24,007,449	9,493,760	14,151,611	414,796,497
Other receivables	3,419,917	3,418,416	118,704	922,067	1,212,735	2,432,897	11,524,736
Total	**177,413,532**	**188,039,347**	**8,647,835**	**24,929,516**	**10,706,495**	**16,584,508**	**426,321,233**

CURRENT FINANCIAL ASSETS

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

- ordinary bonds held by the subsidiary Lavazza Capital S.r.l. and listed on regulated markets, totalling €446.1 million;
- SICAVs amounting to €8.2 million;
- derivative financial assets for a total of €5.8 million.

The item "Derivative financial assets" includes the increase in the fair value of derivative instruments outstanding at 31 December 2016 to hedge the exposure in U.S. dollars for the purchase of green coffee.

The following table provides a detailed description:

Type of contract	Purpose	Notional value	Financial risk of underlying asset	Fair value	Asset/liability covered
Forward	Hedging	€100,000,000	USD exchcang rate risk	5,805,598	Purchases of green coffee

The following table shows the movements in fair value since 1 January 2016:

	1/1/2016	Increases	Decreases	31/12/2016
Derivatives to hedge foreign exchange risk	13,598,898	5,805,598	13,598,898	5,805,598

CASH AND CASH EQUIVALENTS

This item amounted to €671.3 million mainly including cash in bank and post office deposits, as well as cash in hand and cheques held by logistic hubs, outside contractors and sales areas.

The sharp decline in cash and cash equivalents compared to the previous year (€664.8 million) was attributable to short-term investments of available liquidity in bonds held by the Parent Company Lavazza Capital S.r.l., as well as to the acquisition of the business unit responsible for the sale and distribution of coffee products under the Carte Noire brand in France.

Accounts in foreign currencies referred mainly to the Parent Company and resulted from purchases on the market and the collection of receivables from foreign customers located in countries outside the Eurozone. These accounts are generally used to cover payments for the supply of green coffee and for promotional activities in foreign markets.

PREPAYMENTS AND ACCRUED INCOME

The item consists of the following:

Euro units	31/12/2016	31/12/2015	Changes
Accrued income:			
Interest income on securities and derivative premiums	3,267,010	783,387	2,483,623
Other interest income	0	9,352	(9,352)
Other accrued income	7,980	23,111	(15,131)
Total accrued income	**3,274,990**	**815,850**	**2,459,140**
Prepayments:			
Insurance premiums	860,933	900,970	(40,037)
Property rentals	104,510	142,892	(38,382)
Maintenance	452,059	612,323	(160,264)
Advertising expenses	6,331,559	5,252,028	1,079,531
Other prepayments	4,089,633	2,495,934	1,593,699
Financial prepayments	167,667	973,859	(806,192)
Total prepayments	**12,006,361**	**10,378,006**	**1,628,355**
Total prepayments and accrued income	**15,281,351**	**11,193,856**	**4,087,495**

Accrued interest income on securities refers primarily to accrued income on the coupons of the bonds held by Lavazza Capital S.r.l.

Accrued derivative premium income of €17,636 refers to the recognition of forward points on the derivative contracts hedging against euro/South African rand foreign exchange risk as at 31 December 2016 (the difference between the spot rate on the date of execution of the contract and the contractual forward rate).

The amounts in question will be fully recognised in the Income Statement when the hedged costs are recognised.

The item "Advertising expenses" under "Prepayments" refers primarily to the portion not accrued during the year of advance payments made to customers in the Food Service sector for the sponsorship of Lavazza products in the points of sale. Such costs will be recognised in the Income Statement on an accrual basis according to the term of the contract.

Balance Sheet - Equity and Liabilities

EQUITY

The Statement of Changes in Consolidated Equity for 2014, 2015 and 2016 is given in the Attachment to these Notes.

SHARE CAPITAL

Fully subscribed and paid-up share capital at 31 December 2016 consisted of 25,000,000 ordinary shares, with a nominal value of €1 each.

REVALUATION RESERVE

Revaluation reserves are broken down as follows:

Euro units

Company	Balance at 31/12/2016
Re. Law 576/1975	28,033
Re. Law 72/1983	267,519
Re. Law 408/1990	25,096,319
Re. Law 413/1991	5,680,818
Re. Law 342/2000	103,048,412
Re. Law 342/2001	5,100,000
Re. Law 350/2003	93,900,327
Re. Law 266/2005	70,400,000
Re. Law 185/2008	58,200,000
Total revaluation reserves	**361,721,428**

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

OTHER RESERVES

The item contains the other reserves included in the Financial Statements of the Parent Company and the translation reserve at 31 December 2016. It is broken down as follows:

Euro units	**31/12/2016**	**31/12/2015**
Extraordinary reserve	202,679,757	200,161,052
Reserve Re. Art. 18 Presidential Decree 675/77	16,892	16,892
Reserve Re. Art. 55 Law 526/82	86,235	86,235
Reserve Re. Law 46/82	90,785	90,785
Reserve Re. Law 130/83	162,463	162,463
Reserve Re. Art. 55 Presidential Decree 917/86	212,481	212,481
Reserve Re. Law 488/92	380,808	380,808
Merger surplus reserve	56,953,074	56,953,074
Restricted reserve arising from net exchange gains	519,729	3,038,434
Translation reserve	**(6,466,122)**	**(7,094,231)**
Total	**254,636,102**	**254,007,993**

CASH FLOW HEDGE RESERVE

The reserve was established on 1 January 2016, in accordance with Legislative Decree No. 139 of 18 August 2015, and refers to changes in the fair value of the hedging component of outstanding derivative financial instruments, net of the deferred tax effects.

	1/1/2016	**Increases**	**Decreases**	**31/12/2016**
Derivatives hedging USD exchange risk	12,332,502	5,203,995	(12,332,502)	5,203,995
Derivatives hedging ZAR exchange risk	0	0	(9,114)	(9,114)
Derivatives hedging interest rate risk	0	0	(1,689,142)	(1,689,142)
Deferred tax assets on hedge derivatives	0	3,334,044	0	3,334,044
Deferred tax liabilities on hedge derivatives	(2,959,800)	0	(1,248,959)	(4,208,759)
Total	**9,372,702**	**8,538,039**	**15,286,354**	**2,624,387**

RETAINED EARNINGS

The retained earnings reserve decreased by €783,687 due to application of the new accounting standard OIC 32, paragraph 89, which governs the accounting treatment of derivative financial instruments on planned transactions. This amount represents the fair value changes of the interest element of the derivative instruments (forward) outstanding as at the end of the previous year, booked to the income statement for that year on an accrual basis.

This reclassification was necessary to comply with the new accounting standard, which requires that the changes in the time value of derivative instruments be booked to the income statement solely in the year in which the planned transaction occurs, and thus at the maturity of the derivative instrument.

NEGATIVE RESERVE FOR TREASURY SHARES

In accordance with Legislative Decree 139 of 18 August 2015, implementing Directive 2013/34/EU, which amended Article 2357-*ter* of the Italian Civil Code, the value of the treasury shares has been classified to a specific negative equity reserve and the item "Treasury shares" classified among "Financial assets" was eliminated, resulting in the release of the pertinent restricted 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.
In order to allow a comparison with the figures for 2015, balance sheet data at 31 December 2015 have been reclassified.

EQUITY ATTRIBUTABLE TO MINORITY INTERESTS

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

PROVISIONS FOR RISKS AND CHARGES

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

Euro units	31/12/2015	Effect of hedge derivatives	Provisions	Uses and eliminations	Exchange delta	Change in consolidation scope	31/12/2016
Provisions for taxes, including deferred:							
provisions for taxes	4,423,353	0	332,973	(436,425)	616	0	4,320,517
provisions for deferred taxes	2,243,342	4,208,760	613,972	(679,476)	93,950	4,381,789	10,862,337
Total provisions for taxes, including deferred	**6,666,695**	**4,208,760**	**946,945**	**(1,115,901)**	**94,566**	**4,381,789**	**15,182,854**
Financial derivative liabilities	**0**	**2,159,929**	**0**	**0**	**0**	**0**	**2,159,929**
Other provisions:							
for legal issues	5,713,208	0	6,345,704	(4,822,195)	(1,514)	227,600	7,462,803
for customers' goodwill compensation	663,906	0	0	(663,906)	0	0	0
for agents' customer compensation	2,802,965	0	308,679	(280,353)	0	0	2,831,291
for warranties and returns of coffee machines	3,045,724	0	75,810	(3,020,393)	(9,891)	0	91,250
for employee bonuses and benefits	7,972,865	0	15,344,073	(3,686,160)	2,452	0	19,633,230
for endorsements and guarantees	1,174,361	0	565,988	(277,531)	0	0	1,462,818
other	6,096,240	0	5,131,288	(2,355,017)	48,833	30,140	8,951,484
Total other provisions	**27,469,269**	**0**	**27,771,542**	**(15,105,555)**	**39,880**	**257,740**	**40,432,876**
Total provisions for risks and charges	**34,135,964**	**6,368,689**	**28,718,487**	**(16,221,456)**	**134,446**	**4,639,529**	**57,775,659**

PROVISIONS FOR TAXES, INCLUDING DEFERRED

The provision for taxes primarily refers to the IRES (corporate income tax) and IRAP (regional production tax) assessment notices served on the Parent Company in 2015 and 2016. In 2016, the Parent Company appealed all of the 2010 transfer pricing charges, in consideration of the activation of amicable procedures in application of the Arbitration Convention with France, the UK and Germany.

The item “Provision for deferred taxes” is broken down in a table included in the Notes on “Taxes for the year.”

FINANCIAL DERIVATIVE LIABILITIES

The item includes the decrease in the fair values of the derivative instruments outstanding as at 31 December 2016 to hedge against the exposure in South African rand and against changes in interest rates associated with mortgage and lease contracts.

The following table provides a detailed description:

Type of contract	Purpose	Notional value	Financial risk of underlying asset	Fair value	Asset/liability covered
Forward	Hedging	ZAR 14,562,000	ZAR exchange rate risk	(10,494)	Sales
Flexible Forward	Hedging	ZAR 6,000,000	ZAR exchange rate risk	(55,104)	Sales
Differences in the maturities of IRSs	Hedging	EUR 400,000,000	Interest rate risk	(352,500)	Financing received
Interest Rate Swap	Hedging	EUR 400,000,000	Interest rate risk	(1,487,979)	Financing received
Interest Rate Swap	Hedging	EUR 15,000,000	Interest rate risk	(191,595)	Financing received
Interest Rate Swap	Hedging	EUR 45,000,000	Interest rate risk	(62,257)	Lease contract
Total				**(2,159,929)**	

Fair value data are in units of Euro

The following table shows the movements in the year:

	1/1/2016	Increases	31/12/2016
IRS	0	544,095	544,095
Derivatives to hedge ZAR exchange risk	0	65,598	65,598
Derivatives to hedge interest rate risk	0	1,550,236	1,550,236
Total	**0**	**2,159,929**	**2,159,929**

OTHER PROVISIONS

The provision for legal issues was adjusted primarily to account for contingent liabilities arising from employment law disputes.

The item "Other provisions – for customers' goodwill compensation" was established to handle assumed charges that could arise from termination of commercial relations with several customers in the vending and retail sectors generally operating on foreign markets; the item was written down to zero following the termination of the commercial relationships with such distributors.

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

The provision for coffee machines warranties and returns was drawn down during the year to cover such costs. The remainder was released due to the elimination of the risk as a result of the termination of the distribution agreement for the coffeemakers within U.S. territory.

At 31 December 2016, the provision for employee bonuses and benefits reflected the amounts provisioned and drawn-down for employee bonuses and incentives.

The provision for loans and guarantees has been established to account for possible future losses on loans granted by Cofincaf S.p.A., secured by the Parent Company, to vending and Ho.Re.Ca. operators.

Other provisions for risks and charges mainly refer to the provision for restructuring, associated with the process of reorganising and rationalising the production system of Lavazza and its sales network. The provision was adjusted during the year and was partially drawn down to cover the costs associated with the disposal of the Verrès production facility.

EMPLOYEE LEAVING INDEMNITIES

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

Euro units	
Balance at 31/12/2015	**20,372,908**
Change in consolidation area	4,757,676
Revaluation/provisions for the year	834,861
Use for indemnities paid in the year	(793,078)
Use for advances	(576,328)
11% substitute tax on revaluation	0
Exchange gains and losses	4,293
Balance at 31/12/2016	**24,600,332**

Employee leaving indemnities at 31 December 2016 reflected accrued indemnities due to employees until the date they choose a supplemental pension scheme. This amount will be eliminated with the payments that will take place when employment relationships terminate or in case of any advances made as per law.

LIABILITIES

PAYABLES TO BANKS

The balance at 31 December 2016 was broken down as follows:

Euro units	**31/12/2016**	**31/12/2015**	**Changes**
Current accounts negative balances and short-term credit facilities	27,184,200	31,942,815	(4,758,615)
Financing	413,432,994	15,000,000	398,432,994
Total payables to banks	**440,617,194**	**46,942,815**	**393,674,379**

Payables to banks amounted to €440.6 million and referred to:

- financing received from banks, regarding Cofincaf S.p.A. They were broken down into current account liabilities and short-term credit facilities, secured against presentation for collection of payment instruments issued by customers (€27.2 million) and loans due within the next financial year (€15 million). These payables accrue interest at arm's length conditions;
- the five-year corporate loan contracted on 18 February 2016 by the Parent Company for a total amount of €400 million and falling due on 18 February 2021. The variable-rate (6-month Euribor) loan was issued by a pool of four banks (club deal); the loan was then converted to fixed rate through an interest rate swap. At year-end the corporate loan amounted to €398.4 million, of which €35 million due within one year.

PAYABLES TO OTHER LENDERS

This item refer to payables towards the leasing company which, as part of the new headquarters building plan, delivered the first lot currently hosting the Institute of Applied Arts and Design (IADD).

ADVANCE PAYMENTS

Advance payments amounted to €561,030 and refer to advance payments for the supplies provided by some domestic and foreign customers.

TRADE PAYABLES

Trade payables amounted to €333,257,444 and refer to the supply of raw materials and services.

There are no amounts due after one year.

PAYABLES TO SUBSIDIARIES

The item, amounting to €607,119, refers to payables to the direct subsidiary Lavazza Trading (Shenzhen) Co. Ltd. (€571 thousand) and the direct subsidiary Lavazza Maroc S.a.r.l. (€36 thousand) for services rendered to the Parent Company.

PAYABLES TO THE PARENT COMPANY

This item refers to the payables to the Parent Company, Finlav S.p.A., mainly for 2016 IRES (corporate income tax), owed by the Group companies participating in the national tax consolidation programme.

TAX PAYABLES

Tax payables consist of the following:

Euro units	**31/12/2016**	**31/12/2015**	**Changes**
Corporate income tax	5,852,362	1,052,553	4,799,809
VAT payables	12,971,852	2,154,198	10,817,654
Taxes to be paid as withholding agents	2,981,439	3,021,574	(40,135)
Other minor taxes	4,351,847	3,986,233	365,614
Total	**26,157,500**	**10,214,558**	**15,942,942**

SOCIAL SECURITY LIABILITIES

This item amounted to €10,098,618 and included all liabilities regarding social contributions to be paid.

OTHER LIABILITIES

The following table provides a breakdown of other liabilities at 31 December 2016:

Euro units	**31/12/2016**	**31/12/2015**	**Changes**
Trade discounts payable	49,675,284	24,592,732	25,082,552
Payables to personnel	20,409,908	16,674,136	3,735,772
Investments in mutual funds	1,189,861	1,422,084	(232,223)
Other lesser items	2,879,640	5,408,570	(2,528,930)
Total	**74,154,693**	**48,097,522**	**26,057,171**

"Trade discounts payables" refer to credit notes to be issued to customers who reached the contractually established volume or sales targets during the year. The increase was mainly attributable to the Carte Noire business unit.

Payables for investments in mutual funds refer to units underwritten but not yet called in the Innogest Capital und Ersel Investment Club funds, as well as the equity investment in Connect Ventures One LP, a company that invests in European Web business start-ups.

There are no payables that fall due after one year.

The following table provides a breakdown by geographic area of trade and other payables:

Euro units	**Italy**	**Other EU countries**	**Other European countries**	**Americas**	**Australia**	**Other continents**	**Total**
Trade payables	161,409,149	122,058,774	14,772,441	17,932,526	2,864,909	14,219,645	333,257,444
Other payables	36,654,996	33,419,841	6,680	246,580	2,172,970	1,653,626	74,154,693
Total	**198,064,145**	**155,478,615**	**14,779,121**	**18,179,106**	**5,037,879**	**15,873,271**	**407,412,137**

ACCRUALS AND DEFERRED INCOME

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

Euro units	**31/12/2016**	**31/12/2015**	**Changes**
Accruals			
Interest expense	616,500	0	616,500
14th month salary and annual leave	3,259,262	3,117,503	141,759
Rental charges	29,819	48,576	(18,757)
Other	1,307,870	1,021,488	286,382
Total accruals	**5,213,451**	**4,187,567**	**1,025,884**
Deferred income			
Advance interest income	0	399,765	(399,765)
Rental income	119,920	275,312	(155,392)
Other deferred income	4,850,019	3,935,135	914,884
Total deferred income	**4,969,939**	**4,610,212**	**359,727**
Total accruals and deferred income	**10,183,390**	**8,797,779**	**1,385,611**

COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

Third-party guarantees in our favour	*€4,882,672*

The item refers to guarantees provided in our favour by banks to the Ministry of Production amounting to €552,171 in respect of prize-related operations; €1,591,997 to the municipalities of Turin and Gattinara for urbanisation work; €1,479,501 to the Italian Revenue Authority for tax auditing; €81,000 to A.E.M. Milano, Idroelettrica S.c.r.l. (Verrès) and Edison Energia S.p.A. (Pozzilli) for energy supplies;

€204,093 to the Region of Piedmont for clearance work and safety assessment associated to the new headquarters; €16,702 to Consorzio Nucleo Sviluppo Industriale Isernia for drinking water supply; €151,650 to Customs; €652,476 related to property leases; €105,000 for works associated with EXPO 2015, other minor amounts relating primarily to payments for the subsidiary Coffice S.A. (€45,500) and to the municipality of Verrès (€2,582) for waste collection.

Leasing company for maturing fees	*€3,891,984*

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

Income Statement

The application of the Legislative Decree 139/2015 resulted in elimination from the income statement of the extraordinary section (items E21 and E22) and consequent reclassification of items previously booked to extraordinary income and expenses.

In order to allow the comparison with the previous year's Financial Statements, the figures for 2015 have been reclassified, both with reference to the income statement and the detailed statements included in the Notes. The 2015 extraordinary section and the reclassifications made are shown here below.

EXTRAORDINARY INCOME AND EXPENSE FOR 2015

Euro units	**Year 2015**
Extraordinary income:	
Contingent income	2,177,436
Gains from extraordinary disposal of assets	129,170
Adjustment of the tangible assets of the subsidiary Fresh & Honest Café Ltd to the Group's measurement criteria	4,296,682
Other extraordinary income	404,896
Gains from the disposal of the equity investment in Keurig Green Mountain Inc.	822,771,148
Total extraordinary income	**829,779,332**
Extraordinary expense:	
Returns of prior years' sales	1,275,268
Prior years' income taxes	4,078,429
Prior years' taxes	38,880
Write-downs of fixed assets following the transfer to the new headquarters	10,794,624
Provision for charges related to the disposal of the production plant in Verrès	5,325,865
Prior years' costs	2,099,083
Claim compensation	12,374,218
Losses from extraordinary disposal of assets	50,594
Other miscellaneous expense	732,939
Total extraordinary expense	**36,769,900**
Total extraordinary income and expense	**793,009,432**

RECLASSIFIED INCOME STATEMENT PURSUANT TO THE NEW ACCOUNTING STANDARDS

Euro units	Year 2015	Reclassification to extraordinary income and expense	Year 2015 Reclassified
VALUE OF PRODUCTION			
Sales of goods and services	1,472,648,708	(1,275,268)	1,471,373,440
Changes in inventories of work-in progress, semi-finished and finished goods	16,416,762	0	16,416,762
Other income and revenues	10,951,572	2,317,290	13,268,862
TOTAL VALUE OF PRODUCTION	**1,500,017,042**	**1,042,022**	**1,501,059,064**
COSTS OF PRODUCTION			
Raw materials, ancillaries, consumables and goods	(728,941,677)	0	(728,941,677)
Services	(508,436,175)	(52,013)	(508,488,188)
Use of third-party assets	(13,796,236)	0	(13,796,236)
Personnel costs	(163,419,725)	(4,274,244)	(167,693,969)
Amortisation, depreciation and write-downs	(71,319,998)	(6,497,942)	(77,817,940)
Changes in inventories of raw material, ancillaries, consumables and goods	79,243,621	0	79,243,621
Provisions for risks	(3,034,657)	(1,325,865)	(4,360,522)
Other provisions	(693,172)	0	(693,172)
Miscellaneous operating charges	(17,937,804)	(14,583,853)	(32,521,657)
TOTAL COSTS OF PRODUCTION	**(1,428,335,823)**	**(26,733,917)**	**(1,455,069,740)**
BALANCE BETWEEN VALUE AND COSTS OF PRODUCTION	**71,681,219**	**(25,691,895)**	**45,989,324**
FINANCE INCOME AND EXPENSE			
Income from equity investments	3,386,422	822,771,148	826,157,570
Interest and other finance expense	5,621,428	8,608	5,630,036
Exchange gains and losses	(2,120,247)	0	(2,120,247)
TOTAL FINANCE INCOME AND EXPENSE	**6,887,603**	**822,779,756**	**829,667,359**
ADJUSTMENTS TO FINANCIAL ASSETS	**(2,437,203)**	**0**	**(2,437,203)**
EXTRAORDINARY INCOME AND EXPENSE			
Income	829,779,332	(829,779,332)	0
Expense	(36,769,900)	36,769,900	0
TOTAL EXTRAORDINARY INCOME AND EXPENSE	**793,009,432**	**(793,009,432)**	**0**
PROFIT BEFORE TAXES	**869,141,051**	**4,078,429**	**873,219,480**
Income taxes for the year	(67,065,754)	(4,078,429)	(71,144,183)
PROFIT FOR THE YEAR	**802,075,297**	**0**	**802,075,297**

VALUE OF PRODUCTION

SALES OF GOODS AND SERVICES

Consolidated sales pertain to the following activities:

Euro units	Year 2016	Year 2015	Changes
Sales of packaged coffee	1,455,968,724	1,022,279,029	433,689,695
Sales of coffee capsules for vending systems	305,487,008	304,234,065	1,252,943
Sales of coffee machines, equipment and accessories	76,379,528	82,788,317	(6,408,789)
Sales of other food products	35,933,034	34,184,205	1,748,829
Sales of advertising material	11,093,389	16,606,574	(5,513,185)
Other sales and services	10,802,875	11,281,250	(478,375)
Total	**1,895,664,559**	**1,471,373,440**	**424,291,119**

The sharp increase compared to the previous year was primarily due to the sales reported by the Carte Noire business unit, acquired at the end of February 2016, and those related to the Merrild business unit, acquired at the end of September 2015. In 2016, sales of Carte Noire and Merrild products by the Parent Company, Carte Noire S.a.s. and Merrild Kaffe ApS — which distribute products under the Carte Noire and Merrild brand, respectively — totalled €366.4 million.

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

Geographical area	Year 2016	Year 2015	Changes
Italy	751,547,244	693,748,879	57,798,365
Other EU countries	894,519,388	525,061,983	369,457,405
Non-EU countries	249,597,927	252,562,578	(2,964,651)
Total	**1,895,664,559**	**1,471,373,440**	**424,291,119**

OTHER INCOME AND REVENUES

Other income and revenues refer to the following items:

Euro units	Year 2016	Year 2015	Changes
Rentals	980,370	1,453,027	(472,657)
Gains on disposal of assets	952,158	347,016	605,142
Royalties for the use of our trademarks	1,762,499	2,712,880	(950,381)
Grants	3,600,092	763,636	2,836,456
Other extraordinary income	2,129,950	2,188,118	(58,168)
Other income	5,574,557	5,804,183	(229,626)
Total	**14,999,626**	**13,268,860**	**1,730,766**

The resulting gains were entirely realised through the company's ordinary operations.

Royalties refer mainly to the franchising activity within the coffee shops business.

The item “Grants” refers primarily to:

- contributions from public entities of €2,709,428, primarily related to the research and development bonus pursuant to Article 1, paragraph 35, of Law 190/2014 and the related implementing provisions;
- contributions from public entities of €712,978 related to the research and development bonus pursuant to Article 1, paragraph 35, of Law 190/2014 and the related implementing provisions, in addition to the contributions as per Legislative Decree 91/2014 (category “Ateco 28”);
- incentive grants for photovoltaic systems of €177,686 governed by the Ministerial Decree of 19/2/07 (the new Energy Account).

The item “Other extraordinary income” included the €1,591 thousand contingent income reported by the Parent Company and the €539 thousand proceeds arising from the subsidiary Lavazza do Brasil Ltda’s disposal of its vending business unit.

The item “Other” was essentially unchanged compared to the previous year and includes compensation for damages, allowance from suppliers, chiefly for the purchase of coffee machines, release of provisions and other income generated from operating and recurring activities.

COSTS OF PRODUCTION

RAW MATERIALS, ANCILLARIES, CONSUMABLES AND GOODS

The item amounted to €816,707,897 and is broken down as follows:

Euro units	Year 2016	Year 2015	Changes
Purchase of green coffee	510,214,379	464,033,560	46,180,819
Purchase of finished coffee products	54,983,009	23,418,411	31,564,598
Purchase of other food products	10,767,990	11,684,700	(916,710)
Purchase of packaging	88,212,986	66,240,131	21,972,855
Purchase of coffee machines and accessories	77,832,564	102,609,533	(24,776,969)
Purchase of consumables	7,483,461	6,704,892	778,569
Purchase of promotional and advertising material	19,859,465	16,711,832	3,147,633
Other purchases	8,722,664	4,204,797	4,517,867
Taxes and ancillary costs	38,631,379	33,333,821	5,297,558
Total	**816,707,897**	**728,941,677**	**87,766,220**

Changes compared to the previous year refer to: the purchase of green coffee, whose increase was due to the fluctuation of the Euro/Dollar exchange; the purchase of finished coffee products to be sold as a result of the acquisition of the Carte Noire business unit; the purchase of packaging for the Carte Noire-branded products; and the decrease in the purchase of coffee machines.

COSTS OF SERVICES

Services at 31 December 2016 were broken down as follows:

Euro units	Year 2016	Year 2015	Changes
Commercial and selling costs	511,717,563	370,631,010	141,086,553
Ancillary purchasing and production costs	97,573,946	76,780,710	20,793,236
Other general and administrative costs	77,168,295	61,076,468	16,091,827
Total services	**686,459,804**	**508,488,188**	**177,971,616**

The increase in commercial and selling costs was chiefly attributable to the Carte Noire and Merrild business units, in addition to an overall rise in outlays for customers' promotional activities.

In 2016, Carte Noire S.a.s. and Merrild Kaffe ApS reported commercial and sales costs amounting to €101.1 million, mainly including advertising and promotional costs.

Ancillary purchasing and production costs increased due to greater costs of rentals, transport and outsourced processing. They also include the costs incurred by Carte Noire Operations S.a.s., Carte Noire S.a.s. and Merrild Kaffe ApS for a total amount of €8.3 million.

The item "Other general and administrative costs" rose due both to the costs incurred by Carte Noire Operations S.a.s., Carte Noire S.a.s. and Merrild Kaffe ApS (€9.3 million) and the increase in advisory activities (€4.3 million), partly associated with the acquisition of the Carte Noire business unit in the year.

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

Directors	95,200
Auditors	10,140
Total	**105,340**

USE OF THIRD-PARTY ASSETS

The following table provides a breakdown of "Use of third-party assets":

Euro units	Year 2016	Year 2015	Changes
Vehicle leases	5,388,705	4,539,405	849,300
Lease of software and electronic equipment	6,439,987	3,321,189	3,118,798
Other leases	2,274,334	1,469,926	804,408
Property leases	5,482,423	4,389,525	1,092,898
Royalties for use of trademarks	336,685	76,191	260,494
Total use of third-party assets	**19,922,134**	**13,796,236**	**6,125,898**

The item "Lease of software and electronic equipment" includes costs amounting to €1.8 million and incurred by the companies acquired in the Merrild and Carte Noire transactions.

The item "Property leases" primarily refers to the costs incurred for the lease of the offices where the foreign companies are based. In 2016, the item includes the lease of the registered office of Carte Noire S.a.s., which amounted to approximately €1 million.

PERSONNEL COSTS

Personnel costs include salaries, social security contributions, employee leaving indemnities for the year and provisions for bonuses and incentives accrued in the reporting year. Personnel costs grew by €38.5 million, of which €32.5 million regarding the companies acquired as part of the Merrild and Carte Noire transactions.

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

Categories	**Year 2016**	**Year 2015**
Executives	119	110
Middle managers	585	394
White collars	1,312	1,279
Blue collars	813	815
Total	**2,829**	**2,598**

The inclusion of Carte Noire S.a.s. and Carte Noire Operations S.a.s. into the consolidation area generated an increase of 350 in the workforce compared to the previous year.

AMORTISATION, DEPRECIATION AND WRITE-DOWNS

The breakdown in the sub-item has already been reported in the Income Statement. The increase compared to the previous year in amortisation of intangible assets (€33.7 million) was mainly due to the amortisation of the goodwill, trademarks and know-how acquired along with the Merrild and Carte Noire business units. The depreciation of property, plant and equipment includes depreciation charges calculated on plant and machinery at the Lavérune plant of Carte Noire Operations S.a.s. (€2.9 million).

Reference should be made to the relevant section of the Income Statement for furhter comments.

PROVISIONS FOR RISKS AND OTHER PROVISIONS

Provisions for risks amounted to €8.1 million and refer to accruals to the provision for legal issues (€6.3 million) and to the provisions for restructuring (€1.8 million).

Other provisions amounted to €875 thousand and refer to provisions for agents' customer compensation (€309 thousand), and to the provision for contingent losses on defaults on financing granted to our clients by the subsidiary Cofincaf S.p.A. (€566 thousand).

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

OTHER OPERATING CHARGES

Other operating charges refer to the following items:

Euro units	Year 2016	Year 2015	Changes
Taxes other than income taxes	7,513,241	6,038,195	1,475,046
Capital losses	2,583,211	670,166	1,913,045
Association duties	771,327	714,795	56,532
Other gifts	7,402,887	4,679,519	2,723,368
Social charges	2,869,701	3,075,202	(205,501)
Bad debts	571,947	1,234,835	(662,887)
Compensation for damages	5,839,869	2,496,810	3,343,059
Other operating charges	5,303,810	13,612,134	(8,308,324)
Total miscellaneous operating charges	**32,855,992**	**32,521,655**	**334,337**

In 2016, taxes other than income taxes include prior-year taxes of approximately €1.8 million relating to the subsidiary Fresh & Honest Café Ltd, of which €978 thousand still to be paid and set aside to other provisions for risks and charges.

The item "Compensation for damages" refers to expenses incurred by the Parent Company and the increase compared to the previous year is attributable to an indemnity paid to a Greek distributor not covered by the pertinent provision for risks.

The item "Other operating charges" chiefly refers to contingent liabilities of approximately €2.2 million of an extraordinary nature regarding prior-year charges.

FINANCE INCOME AND EXPENSE

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

Euro units	Year 2016	Year 2015	Changes
Income from equity investments:			
Gain from the disposal of the equity investment in Keurig Green Mountain Inc.	0	822,771,148	(822,771,148)
Dividends and income from other companies	407,140	3,386,422	(2,979,282)
Total income from equity investments	**407,140**	**826,157,570**	**(2,979,282)**
Finance income:			
Interest income from current securities	8,173,793	12,941	8,160,852
Interest income from banks	1,656,386	3,074,114	(1,417,728)
Other finance income	1,660,654	3,205,233	(1,544,579)
Total finance income	**11,490,833**	**6,292,288**	**5,198,545**
Finance expense:			
Interest expense to banks	3,084,212	423,507	2,660,705
Interest expense to third parties	668,384	43,754	624,630
Other finance expense	231,576	194,991	36,585
Total finance expense	**3,984,171**	**662,252**	**3,321,919**
Total finance income and expense	**7,913,802**	**831,787,606**	**(823,873,804)**

In 2016, dividends from other companies included dividends distributed by the investees Espresso Service Proximité S.A. and Tamburi Investment Partners S.p.A., whereas in the previous year they also comprised the dividends related to the equity investments in Keurig Green Mountain Inc., disposed of in 2015.

Finance income from current securities refer to interest income accrued by the subsidiary Lavazza Capital S.r.l., a company incorporated in 2015 with the aim of undertaking financing transactions for the Group and managing a significant portion of its cash so as to optimise the risk/return of its investments.

Interest income from banks regarded primarily interest accrued on the cash at bank of the Parent Company.

Other finance income essentially related to interest income accrued on loans granted to the customers by the subsidiary Cofincaf S.p.A.

EXCHANGE GAINS AND LOSSES

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

Euro units	Year 2016	Year 2015	Changes
Recognised exchange gains	1,667,625	1,522,726	144,899
Realised exchange gains	1,379,053	8,898,821	(7,519,768)
Total exchange gains	**3,046,678**	**10,421,547**	**(7,374,869)**
Recognised exchange losses	736,057	340,749	395,308
Realised exchange losses	5,014,460	12,201,045	(7,186,585)
Total exchange losses	**5,750,517**	**12,541,794**	**(6,791,277)**
Net exchange gains (losses)	**(2,703,839)**	**(2,120,247)**	**(583,592)**

ADJUSTMENTS TO FINANCIAL ASSETS

Write-ups of equity investments refer to the affiliate Espresso Service Proximité S.A. following its measurement using the equity method.

The write-downs of equity investments relate to the impairment losses recognised on the equity investment in INV. A.G. S.r.l.

Write-downs of current securities other than equity investments were attributable to adjustment to fair value of bonds held by the Parent Company, Lavazza Capital S.r.l.

INCOME TAXES FOR THE YEAR

Taxes are allocated based on reasonable forecasting of tax burden, due account being taken of applicable exemptions.

The following table provides a detailed description:

Euro units	Year 2016	Year 2015	Changes
Current taxes	**17,905,120**	**(71,616,380)**	**89,521,500**
Current taxes for the year	(17,467,025)	(67,537,951)	50,070,926
Prior years' current taxes	35,372,145	(4,078,429)	39,450,574
Deferred tax assets	**2,072,907**	**163,787**	**1,909,120**
Provision for deferred tax assets	12,206,136	10,132,006	2,074,130
Reversal of deferred tax assets	(9,856,387)	(9,968,219)	111,832
IRES delta on deferred tax assets	(276,842)	0	(276,842)
Deferred tax liabilities	**65,503**	**308,410**	**(242,907)**
Provision of deferred tax liabilities	(613,973)	(591,270)	(22,703)
Reversal of deferred tax liabilities	675,822	899,680	(223,858)
IRES delta on deferred tax liabilities	3,654	0	3,654
TOTAL TAXES FOR THE YEAR	**20,043,530**	**(71,144,183)**	**91,187,713**

The positive balance of the item "Prior years' taxes" refers to the Parent Company and is largely due to evaluations of income taxes for 2015 conducted after the financial statements were approved.

Deferred tax assets and liabilities are measured each year based on rates in force at the time the temporary differences will be reversed, making the proper adjustments in case of rate changes from year to year.

Changes in deferred tax assets and liabilities and a breakdown of taxes are summarised in the following table:

Nature	31/12/2015	Movements in cash flow hedge reserve 1/1/2016	Change in consolida-tion scope	Reversals	Provisions	Effect of new IRES rate	Exchange effect	Movements in cash flow hedge reserve	31/12/2016
DEFERRED TAX ASSETS									
Deferred deductibility costs	21,773,888	0	264,415	(9,787,637)	9,282,159	(276,842)	81,661	0	21,337,644
Fiscally deductible cash costs	68,750	0	0	(68,750)	0	0	0	0	0
Elimination of the tax effect of intragroup profits	2,408,819	0	0	0	2,923,977	0	0	0	5,332,796
Adjustment of financial derivatives to FV	0	0	0	0	0	0	0	3,334,044	3,334,044
Total deferred tax assets	**24,251,457**	**0**	**264,415**	**(9,856,387)**	**12,206,136**	**(276,842)**	**81,661**	**3,334,044**	**30,004,484**
DEFERRED TAX LIABILITIES									
Accelerated amortisation and depreciation	38,436	0	4,381,789	(38,436)	406,983	0	0	0	4,788,772
Exchange gains (losses)	460,399	0	0	(460,400)	169,275	0	0	0	169,274
Provisions for consolidation differences related to buildings	1,403,319	0	0	(167,469)	0	(3,654)	0	0	1,232,196
Other	341,188	0	0	(9,517)	37,715	0	93,950	0	463,336
Adjustment of financial derivatives to FV	0	2,959,800	0	0	0	0	0	1,248,959	4,208,759
Total deferred tax liabilities	**2,243,342**	**2,959,800**	**4,381,789**	**(675,822)**	**613,973**	**(3,654)**	**93,950**	**1,248,959**	**10,862,337**

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 equity investments in subsidiaries and affiliates.

Although the carrying amount of the Ersel Investment Club Fund exceeded its fair value, it was decided not to write down the carrying amount since the difference is not representative of an impairment loss, considering the changing general market performance and the investment's long-term horizon.

Financial assets	Carrying amount	Fair value
Equity investments in other companies		
INV. A.G. S.r.l.	7,287,658	7,287,658
Tamburi Investment Partners S.p.A.	3,092,733	4,950,000
ClubItaly S.p.A.	4,590,000	5,596,144
Other	32,603	32,603
Total equity investments in other companies	**15,002,994**	**17,866,405**
Other receivables		
Guarantee deposits	566,667	566,667
Receivables from Connect Ventures One LP	583,984	1,265,550
Total other receivables	**1,150,651**	**1,832,217**
Other securities		
DGPA Capital fund	964,827	1,979,313
Innogest Capital fund	1,705,554	1,673,502
Ersel Investment Club fund	3,371,451	2,957,196
Ersel Debt Opportunity Plus-A Fund	2,180,959	3,018,584
Total other securities	**8,222,790**	**9,628,595**
Treasury shares	**24,376,435**	**29,327,217**

INFORMATION ON THE CONSIDERATION OWED TO THE INDEPENDENT AUDITORS OF THE ANNUAL ACCOUNTS PURSUANT TO THE NEW PARAGRAPH 1 OF ARTICLE 38, LEGISLATIVE DECREE 127/91

The following table presents the total amount of the consideration owed to EY S.p.A. for conducting, respectively, the statutory independent audits of the annual account of the Financial Statements of the Parent Company, Luigi Lavazza S.p.A., its Italian subsidiaries, Cofincaf S.p.A. and Lavazza Capital S.r.l. and, separately, the statutory independent audit of the Consolidated Financial Statements of the Lavazza Group for the year ended 31 December 2016, as well as the total amount of consideration accrued for other minor services relating to methodological support activities.

Euro units

Assets	Company	2016
Statutory auditing of annual accounts	Luigi Lavazza S.p.A.	102,000
	Lavazza Group's consolidated	22,000
	Cofincaf S.p.A.	27,000
	Lavazza Capital S.r.l.	15,000
Total		**166,000**

INFORMATION ON OFF-BALANCE SHEET AGREEMENTS AS PER ARTICLE 2427, FIRST PARAGRAPH, POINT 22 – TER OF THE ITALIAN CIVIL CODE

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

SUBSIDIARIES AT 31 DECEMBER 2016

Company	Registered offices		Share capital	% held directly	% held indirectly	% held by the Group
PARENT COMPANY						
Luigi Lavazza S.p.A.	Turin	EUR	25,000,000	-	-	-
COMPANIES CONSOLIDATED USING THE LINE-BY-LINE METHOD						
Lavazza France S.a.s.	Noisy-Le-Grand	EUR	15,250,000	100	-	100
Carte Noire S.a.s.	Boulogne	EUR	103,830,406	94.68	5.32	100
Carte Noire Operations S.a.s.	Lavérune	EUR	11,517,350	-	100	100
Lavazza Kaffee G.m.b.H.	Vienna	EUR	218,019	100	-	100
Lavazza Deutschland G.m.b.H.	Frankfurt	EUR	210,000	100	-	100
Lavazza Premium Coffees Corp.	New York	USD	30,800,000	93	-	93
Lavazza Coffee (UK) Ltd	Uxbridge	GBP	1,000	100	-	100
Lavazza Finance Ltd	Dublin	EUR	51,655,000	100	-	100
Lavazza España S.L.	Barcelona	EUR	1,090,620	100	-	100
Lavazza Nordic AB	Stockholm	SEK	100,000	100	-	100
Lavazza Do Brasil Ltda	Rio de Janeiro	BRL	68,324,539	99.43	0.57	100
Cofincaf S.p.A.	Turin	EUR	3,000,000	99	-	99
Lea S.r.l.	Turin	EUR	100,000	99.9	0.1	100
Lavazza Netherlands B.V.	Amsterdam	EUR	111,500,000	100	-	100
Fresh & Honest Café Ltd.	Chennai	INR	70,979,610	-	99.99	99.99
Coffice S.A.	Buenos Aires	ARS	7,737,724	97.41	2.59	100
Almada Comercio de Café Ltda	São Paulo	BRL	1,000,800	-	100	100
Lavazza Australia Pty Ltd	Hawthorn	Aud	7,310,600	100	-	100
Lavazza Capital S.r.l.	Turin	EUR	200,000	100	-	100
Merrild Kaffe ApS	Middelfart	Dkk	50,000	100	-	100
Merrild Baltics SIA	Riga	EUR	2,846	-	100	100
Brasilia S.a.s.	Saint Denis	EUR	150,000	-	100	100
EQUITY INVESTMENTS VALUED USING THE EQUITY METHOD:						
Espresso Service Proximité S.A.	Bonneuil-sur-Marne	EUR	192,440	26	-	26
EQUITY INVESTMENTS VALUED AT COST:						
Immobiliare I.N.N.E.T. S.r.l.	Turin	EUR	30,000	100	-	100
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	EUR	150,000	20	-	20
INV. A.G. S.R.L.	Milan	EUR	207,637,307	6.09	-	6.09
ClubItaly S.p.A.	Milan	EUR	100,000	3.75	-	3.75
Connect Ventures One LP	London	GBP	n.a.	2.53	-	2.53
Casa del Commercio e Turismo S.p.A.	Turin	EUR	114,700	-	3	3
Air Vallée S.p.A.	St. Christopher	EUR	6,000,000	2	-	2
Tamburi Investment Partners S.p.A.	Milan	EUR	76,853,716	0.93	-	0.93
Immobilière 3 F (formerly Le Foyer du Fonctionnaire)	Paris	EUR	46,552,000	n.a.	-	n.a.
Idroelettrica S.c.r.l.	Aosta	EUR	50,000	0.1	-	0.1

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Balance at 31 December 2013	Dividends paid	Transfer to retained earnings	Adjustment delta	Other changes	Profit for the year	Balance at 31 December 2014
Share capital	25,000,000	0	0	0	0	0	25,000,000
Share premium account	223,523	0	0	0	0	0	223,523
Revaluation reserves	373,275,883	0	0	0	0	0	373,275,883
Legal reserve	5,000,000	0	0	0	0	0	5,000,000
Reserve for treasury shares in portfolio	17,732,533	0	0	0	0	0	17,732,533
Other reserves	226,555,223	0	0	4,254,804	0	0	230,810,027
Retained earnings	517,591,254	0	19,574,526	0	0	0	537,165,780
Profit (loss) for the year	84,824,531	(65,250,005)	(19,574,526)	0	0	126,522,098	126,522,098
EQUITY	**1,250,202,947**	**(65,250,005)**	**0**	**4,254,804**	**0**	**126,522,098**	**1,315,729,844**

	Balance at 31 December 2014	Dividends paid	Transfer to retained earnings	Adjustment delta	Other changes	Profit for the year	Balance at 31 December 2015
Share capital	25,000,000	0	0	0	0	0	25,000,000
Share premium account	223,523	0	0	0	0	0	223,523
Revaluation reserves	373,275,883	0	(11,554,455)	0	0	0	361,721,428
Legal reserve	5,000,000	0	0	0	0	0	5,000,000
Reserve for treasury shares in portfolio	17,732,533	0	0	0	(17,732,533)	0	0
Other reserves	230,810,027	0	3,038,434	2,426,999	17,732,533	0	254,007,993
Retained earnings	537,165,780	0	121,613,118	0	0	0	658,778,898
Profit for the year	126,522,098	(13,425,001)	(113,097,097)	0	0	801,780,624	801,780,624
Negative reserve for treasury shares in portfolio	0	0	0	0	(17,732,533)	0	(17,732,533)
EQUITY	**1,315,729,844**	**(13,425,001)**	**0**	**2,426,999**	**(17,732,533)**	**801,780,624**	**2,088,779,933**

	Balance at 31 December 2015	Changes in accounting standards	Balance at 1 January 2016	Dividends paid	Transfer to retained earnings	Adjustments, exchange rates and other movements	Adjustment of derivatives to fair value	Result for the year	Balance at 31 December 2016
Share capital	25,000,000	0	25,000,000	0	0	0	0	0	25,000,000
Share premium account	223,523	0	223,523	0	0	0	0	0	223,523
Revaluation reserves	361,721,428	0	361,721,428	0	0	0	0	0	361,721,428
Legal reserve	5,000,000	0	5,000,000	0	0	0	0	0	5,000,000
Other reserves	254,007,993	0	254,007,993	0	0	628,109	0	0	254,636,102
Cash flow hedge reserve	0	9,372,702	9,372,702	0	0	0	(6,748,315)	0	2,624,387
Retained earnings	658,778,898	0	658,778,898	0	776,580,622	(1,419,041)	(783,687)	0	1,433,156,792
Profit (loss) for the year	801,780,624	0	801,780,624	(25,200,002)	(776,580,622)	0	0	81,950,294	81,950,294
Negative reserve for treasury shares in in portfolio	(17,732,533)	0	(17,732,533)	0	0	0	0	0	(17,732,533)
EQUITY	**2,088,779,933**	**9,372,702**	**2,098,152,635**	**(25,200,002)**	**0**	**(790,932)**	**(7,532,002)**	**81,950,294**	**2,146,579,993**

SUPPLEMENTARY INFORMATION

OFF-BALANCE SHEET ARRANGEMENTS

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

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

POST BALANCE SHEET EVENTS

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

The global growth forecast for 2017 is 3.4%, slightly higher than in 2016. However, the outlook remains uncertain and there are various potential risks that might result in slower global development: the elections in Europe, with the unknowns relating to the risk of populism and anti-European sentiment, the reforms by recently elected President Trump and the Chinese government and the consequences of the OPEC agreement.

Within the Euro Area, low inflation rates are driving the ECB to continue its accommodating policy throughout 2017.

However, in the USA higher average rates than in 2016 are expected: at its last meeting in December, the Federal Reserve outlined plans for three rate increases in 2017.

In early 2017 the exchanges were out of synch, with New York down slightly (second position of 141 cents on 14 March) and London still very high at around 2,150-2,200 dollars.

As the harvest season in Brazil approaches, it is becoming clear that Robusta supply will continue to be limited this season due to drought, resulting in tension on the exchange where this variety is traded.

Arabica production is secure, benefiting from a normal climate.

In early 2017 the euro/dollar exchange rate continued to fluctuate within range, between a low of 1.038 and a high of around 1.077, with an average of approximately 1.06. The interest rate increase by the Federal Reserve and the Dutch elections drove the exchange rate back up to the upper end of the range, after downwards pressure on the euro had prevailed at the beginning of the year.

Within this macroeconomic scenario, the Parent Company is establishing a Risk Management Function, in pursuit of more complete and comprehensive management of the main risks to which the Group is exposed (foreign exchange, raw material and credit risk).

5
Independent Auditors' Report


LAVAZZA

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

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ey.com

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

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Lavazza Group, which comprise the balance sheet as at 31 December 2016, the income statement and the statement of cash flows for the year then ended, and the explanatory notes.

Directors' responsibility for the consolidated financial statements

The Directors of Luigi Lavazza S.p.A. are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with the Italian regulations governing financial statements.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Lavazza Group as at 31 December 2016, of its financial performance and cash flows for the year then ended in accordance with the Italian law.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 2.950.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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Report on other legal and regulatory requirements

Opinion on the consistency of the Directors' Single Report on Operations with the consolidated financial statements

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by the law, on the consistency of the Directors' Single Report on Operations with the consolidated financial statements. The Directors of Luigi Lavazza S.p.A. are responsible for the preparation of the Directors' Single Report on Operations in accordance with the applicable laws and regulations. In our opinion the Directors' Single Report on Operations is consistent with the consolidated financial statements of Lavazza Group as at 31 December 2016.

Turin, 11 April 2017

EY S.p.A.
Signed by: Stefania Boschetti, partner

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

THE 2017 LAVAZZA CALENDAR “WE ARE WHAT WE LIVE” - PHOTO BY DENIS ROUVRE

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Financial Statements of Luigi Lavazza S.p.A. at 31 December 2016


NUOVO
LAVAZZA
TORINO, ITALIA, 1895
prontissimo!
CLASSICO
SOLUBILE PREMIUM
con il 10% di caffè in grani
finemente macinato

Highlights of Luigi Lavazza S.p.A.

Euro million	**Year 2016**	**Ratio %**	**Year 2015**	**Ratio %**
Sales of goods and services	1,429.8	100.0%	1,204.5	100.0%
EBITDA	148.8	10.4%	105.3	8.7%
EBIT	54.1	3.8%	39.0	3.2%
Profit before taxes	60.9	4.3%	868.1	72.1%
Profit for the year	**88.2**	**6.2%**	**801.6**	**66.6%**
Net working capital	434.5		76.8	
Net fixed assets	1,711.2		694.9	
Total uses	**2,145.7**		**771.7**	
Net financial position	30.7		706.6	
Equity	2,115.0		65.1	
Total sources	**2,145.7**		**771.7**	
CAPEX	60.3		45.6	
Headcount	1,533		1,556	
ROS	3.9%		3.4%	
ROI	4.4%		7.0%	
ROE	4.2%		39.1%	

Reclassified Income Statement

Euro million	31/12/2016	Ratio %	31/12/2015	Ratio %	Changes	Changes %
Sales of goods and services	1,429.8	100.0%	1.204.5	100.0%	225.3	18.7%
Other income and revenues	63.6	4.4%	22.8	1.9%	40.8	178.9%
Total income and revenues	**1,493.4**	**104.4%**	**1,227.3**	**101.9%**	**266.1**	**21.7%**
Cost of sales	737.4	51.5%	562.5	46.7%	174.9	31.1%
Costs of services	452.5	31.6%	400.0	33.2%	52.5	13.1%
Other costs	30.3	2.1%	36.7	3.0%	(6.4)	(17.4%)
Total external costs	**1,220.2**	**85.2%**	**999.2**	**83.0%**	**221.0**	**22.1%**
Value added	**273.2**	**19.1%**	**228.1**	**18.9%**	**45.1**	**19.8%**
Personnel costs	124.4	8.7%	122.8	10.2%	1.6	1.3%
EBITDA	**148.8**	**10.4%**	**105.3**	**8.7%**	**43.5**	**41.3%**
Amortisation, depreciation and write-downs	87.5	6.1%	61.8	5.1%	25.7	41.6%
Provisions	7.2	0.5%	4.5	0.4%	2.7	60.0%
EBIT	**54.1**	**3.8%**	**39.0**	**3.2%**	**15.1**	**38.7%**
Income (expense) from equity investments	9.5	0.7%	828.4	68.8%	(818.9)	98.9%
Finance income (expense)	(2.7)	(0.2%)	0.7	0.1%	(3.4)	(485.7%)
Profit before taxes	**60.9**	**4.3%**	**868.1**	**72.1%**	**(807.2)**	**(93.0%)**
Income taxes	27.3	1.9%	(66.5)	(5.5%)	93.8	(141.1%)
Profit for the year	**88.2**	**6.2%**	**801.6**	**66.6%**	**(713.4)**	**(89.0%)**

Reclassified Balance Sheet

	Euro million	31/12/2016	31/12/2015	Changes
	Inventories	258.3	248.3	10.0
	Trade receivables	165.1	151.5	13.6
	Receivables from subsidiaries, affiliates and Parent Company	227.9	120.8	107.1
	Deferred tax assets and tax receivables	37.8	44.8	(7.0)
	Prepayments and accrued income	42.0	39.6	2.4
	Tangible assets held for sale	3.3	0.0	3.3
A.	**Total operating assets**	**734.4**	**605.0**	**129.4**
	Trade payables	225.4	177.9	47.5
	Payables to subsidiaries, affiliates and the Parent Company	10.3	16.0	(5.7)
	Tax and social security liabilities	18.5	7.7	10.8
	Other liabilities and deferred income	45.7	45.7	0.0
B.	**Total operating liabilities**	**299.9**	**247.3**	**52.6**
C.	**Net working capital (A-B)**	**434.5**	**357.7**	**76.8**
	Intangible assets	646.9	55.4	591.5
	Tangible assets	244.6	243.9	0.7
	Financial assets	878.1	767.0	111.1
D.	**Total fixed assets**	**1,769.6**	**1,066.3**	**703.3**
	Provisions for risks and charges	41.1	31.7	9.4
	Employee leaving indemnities	17.3	18.3	(1.0)
E.	**Total fixed liabilities**	**58.4**	**50.0**	**8.4**
F.	**Total fixed assets, net (D-E)**	**1,711.2**	**1,016.3**	**694.9**
G.	**Total net invested assets - Uses (C+F)**	**2,145.7**	**1,374.0**	**771.7**
	Cash and cash equivalents	(362.5)	(673.5)	311.0
	Current financial assets	(5.2)	(2.4)	(2.8)
	Financial liabilities	398.4	0.0	398.4
H.	**Net financial position**	**30.7**	**(675.9)**	**706.6**
	Share capital	25.0	25.0	0.0
	Reserves	613.1	610.3	2.8
	Retained earnings	1,388.7	613.0	775.7
	Profit for the year	88.2	801.6	(713.4)
I.	**Equity**	**2,115.0**	**2,049.9**	**65.1**
L.	**Total sources (I+H)**	**2,145.7**	**1,374.0**	**771.7**

Reclassified Cash Flow Statement[(a)]

Euro million	Year 2016	Year 2015
Profit for the year	88.2	801.6
Amortisation and depreciation	80.7	48.9
Net change in leaving indemnities	(1.0)	(0.9)
Net change in provisions for risks and charges	9.4	10.0
Write-downs of equity investments and securities included in fixed assets	5.7	15.4
Other write-downs of fixed assets	1.5	9.7
Gains from the disposal of equity investments	0.0	(822.8)
Gains from the disposal of fixed assets	0.0	(0.2)
Change of items in net working capital		
- Inventories	(13.3)	(84.4)
- Trade receivables	(13.7)	19.1
- Other receivables and assets	(102.4)	(36.8)
- Trade payables	47.6	0.0
- Other payables and liabilities	5.1	0.1
Cash flow generated by (used for) operating activities	**107.8**	**(40.3)**
Net investments in:		
- Intangible assets	(13.8)	(50.0)
- Tangible assets	(46.5)	(35.3)
- Equity investments in subsidiaries, affiliates and other companies	(23.4)	(567.5)
- Other financial assets	(2.2)	(11.2)
- Business unit acquisition	(713.0)	(51.8)
Disposal of:		
- Equity investments	7.7	1,164.5
Cash flow generated by (used for) investing activities	**(791.2)**	**448.7**
Dividends paid	(25.2)	(13.4)
Change in cash flow hedge reserve	2.8	0.0
Change in retained earnings due to derivatives	(0.8)	0.0
Cash flow generated by (used for) financing activities	**(23.2)**	**(13.4)**
Net cash flow for the year	**(706.6)**	**395.0**
Net financial position at year-start	**675.9**	**280.9**
Net financial position at year-end	**(30.7)**	**675.9**

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

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Directors' Report on Operations

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

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Financial Statements of Luigi Lavazza S.p.A.


103
FRISKHED OG AROMA
Merrild
SIDEN 1964
FORMALET KAFFE
Merrild
500g
100%
ARABICA
Koffeinlet
FRISKHED OG AROMA
Merrild
SIDEN 1964
FORMALET KAFFE
KOFFEINLET
Merrild

Balance Sheet - Assets

Euro units		31/12/2016		31/12/2015 (*)	
A)	**CALLED-UP SHARE CAPITAL NOT PAID**		**0**		**0**
B)	**FIXED ASSETS**				
I)	**INTANGIBLE ASSETS**				
2)	Development costs	4,438,807		2,209,558	
4)	Concessions, licences, trademarks and similar rights	289,362,410		33,859,790	
5)	Goodwill	342,043,257		10,850,823	
6)	Intangible assets in progress and advances	991,120		4,782,767	
7)	Other	10,065,304		3,739,979	
	TOTAL INTANGIBLE ASSETS		**646,900,898**		**55,442,917**
II)	**TANGIBLE ASSETS**				
1)	Land and buildings	102,760,605		115,131,434	
2)	Plant and machinery	93,732,749		97,817,067	
3)	Industrial and commercial equipment	27,072,908		19,703,731	
4)	Other assets	5,820,210		4,160,363	
5)	Tangible assets in process and advances	15,249,877		7,100,808	
	TOTAL TANGIBLE ASSETS		**244,636,349**		**243,913,403**
III)	**FINANCIAL ASSETS**				
1)	Equity investments:				
	a) subsidiaries	841,772,751		723,693,024	
	b) affiliates	1,812,296		1,812,296	
	d-*bis*) other companies	7,319,881		16,468,905	
2)	Receivables:				
	a) from subsidiaries	26,380,400		12,130,249	
	d-*bis*) from others	814,057		878,471	
3)	Other securities	0		12,033,596	
	TOTAL FINANCIAL ASSETS		**878,099,385**		**767,016,541**
	TOTAL FIXED ASSETS (B)		**1,769,636,632**		**1,066,372,861**

Euro units		31/12/2016		31/12/2015 (*)	
C)	**CURRENT ASSETS**				
I)	**INVENTORIES**				
1)	Raw materials, ancillaries and consumables	180,519,020		171,442,403	
2)	Work-in-process and semi-finished products	1,146,583		1,750,917	
4)	Finished products and goods	74,752,902		74,171,977	
5)	Inventory advances	1,875,245		957,071	
	TOTAL INVENTORIES		**258,293,750**		**248,322,368**
II)	**RECEIVABLES**				
1)	Trade receivables				
	a) due within one year	165,134,157		151,468,960	
2)	From subsidiaries				
	a) due within one year	181,161,422		115,489,722	
3)	From affiliates				
	a) due within one year	6,907,976		6,159,324	
4)	From parent companies				
	a) due within one year	39,850,579		1,872,649	
5-*bis*)	Tax receivables	16,264,389		24,720,390	
5-*ter*)	Deferred tax assets	21,553,879		20,104,483	
5-*quater*)	Other receivables				
	a) Due within one year	7,474,537		6,070,756	
	b) due after one year	24,728,098		24,728,098	
	TOTAL RECEIVABLES		**463,075,037**		**350,614,382**
III)	**CURRENT FINANCIAL ASSETS**				
5)	Financial derivative assets		**5,805,598**		**0**
IV)	**CASH AND CASH EQUIVALENTS**				
1)	Bank and post office deposits	362,546,217		673,409,401	
3)	Cash and valuables on hand	47,755		46,595	
	TOTAL CASH AND CASH EQUIVALENTS		**362,593,972**		**673,455,996**
V)	**TANGIBLE ASSETS HELD FOR SALE**		**3,300,000**		**0**
	TOTAL CURRENT ASSETS (C)		**1,093,068,357**		**1,272,392,746**
D)	**PREPAYMENTS AND ACCRUED INCOME**		**9,741,312**		**8,817,073**
	TOTAL ASSETS		**2,872,446,301**		**2,347,582,680**

(*) The figures for 2015 have been reclassified to reflect the introduction of new accounting standards with effect from 1 January 2016, resulting in the elimination from the balance sheet of section III, item 4) "Treasury shares", which has been reclassified to the equity and liabilities side of the balance sheet, section X, "Negative reserve for treasury shares in portfolio".

Balance Sheet - Equity and Liabilities

Euro units		31/12/2016		31/12/2015 (*)	
A)	**EQUITY**				
I.	SHARE CAPITAL	25,000,000		25,000,000	
II.	SHARE PREMIUM ACCOUNT	223,523		223,523	
III.	REVALUATION RESERVES	361,721,428		361,721,428	
IV.	LEGAL RESERVE	5,000,000		5,000,000	
V.	STATUTORY RESERVES	0		0	
VI.	OTHER RESERVES				
	Extraordinary reserve	202,679,758		200,161,050	
	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 17/2/1982	90,785		90,785	
	Reserve Re. Art. 55 Presidential Decree 917/86	212,481		212,481	
	Reserve Re. Law 130 of 26/4/1983	162,463		162,463	
	Reserve Re. Law 488 of 19/12/1992	380,808		380,808	
	Restricted reserve arising from net exchange gains	519,728		3,038,435	
	Merger surplus reserve	56,953,074		56,953,074	
VII.	CASH FLOW HEDGE RESERVE	2,769,930		0	
VIII.	RETAINED EARNINGS	1,388,654,045		613,032,130	
IX.	PROFIT (LOSS) FOR THE YEAR	88,181,692		801,605,605	
X.	NEGATIVE RESERVE FOR TREASURY SHARES	(17,732,533)		(17,732,533)	
	TOTAL EQUITY		**2,114,920,309**		**2,049,952,376**
B)	**PROVISIONS FOR RISKS AND CHARGES**				
2)	Provision for taxes, including deferred	9,647,314		5,939,239	
3)	Financial derivative liabilities	1,968,334		0	
4)	Other	29,453,454		25,715,289	
	TOTAL PROVISIONS FOR RISKS AND CHARGES		**41,069,102**		**31,654,528**

	Euro units	**31/12/2016**		**31/12/2015 (*)**	
C)	**EMPLOYEE LEAVING INDEMNITIES**		**17,353,757**		**18,334,174**
D)	**LIABILITIES**				
4)	Payables to banks				
	a) due within one year	35,008,622		12,302	
	b) due after one year	363,432,994		0	
6)	Advance payments	30,564		26,847	
7)	Trade payables	225,432,135		177,879,275	
9)	Payables to subsidiaries	10,932,824		8,453,284	
10)	Payables to affiliates	0		0	
11)	Payables to Parent Company	4		7,795,379	
12)	Tax payables	13,379,242		2,900,899	
13)	Social security liabilities	5,107,267		4,780,156	
14)	Other liabilities	38,115,180		39,747,497	
	TOTAL LIABILITIES		**691,438,832**		**241,595,639**
E)	**ACCRUALS AND DEFERRED INCOME**		**7,664,301**		**6,045,963**
	TOTAL EQUITY AND LIABILITIES		**2,872,446,301**		**2,347,582,680**

(*) The figures for 2015 have been reclassified to reflect the introduction of new accounting standards with effect from 1 January 2016, resulting in the elimination from the balance sheet of section III, item 4) "Treasury shares", which has been reclassified to the equity and liabilities side of the balance sheet, section X, "Negative reserve for treasury shares in portfolio".

Income Statement

Euro units		Year 2016		Year 2015 (*)	
A)	**VALUE OF PRODUCTION**				
1)	Sales of goods and services	1,429,784,337		1,204,458,109	
2)	Changes in inventories of work-in progress, semi-finished and finished goods	(23,410)		7,466,029	
5)	Other income and revenues				
	- miscellaneous	60,045,801		22,047,297	
	- grants	3,600,092		763,636	
	TOTAL VALUE OF PRODUCTION		**1,493,406,820**		**1,234,735,071**
B)	**COSTS OF PRODUCTION**				
6)	Raw material, ancillaries, consumables and goods	746,432,166		648,400,117	
7)	Services	452,513,721		399,966,564	
8)	Use of third-party assets	10,876,221		9,385,709	
9)	Personnel costs:				
	a) wages and salaries	88,817,243		83,676,329	
	b) social security costs	24,329,464		24,121,759	
	c) leaving indemnities	7,636,817		11,085,672	
	e) other costs	3,662,638		3,878,944	
10)	Amortisation, depreciation and write-downs				
	a) amortisation	36,419,243		3,653,647	
	b) depreciation	44,277,819		45,249,863	
	c) other write-downs	5,333,464		11,410,972	
	d) write-downs of receivables in current assets and of cash and cash equivalents	1,439,934		1,523,503	
11)	Changes in inventories of raw material, ancillaries, consumables and goods	(9,076,616)		(78,475,115)	
12)	Provisions for risks	6,307,170		3,856,618	
13)	Other provisions	874,668		693,172	
14)	Miscellaneous operating costs	19,476,778		27,274,285	
	TOTAL COSTS OF PRODUCTION		**1,439,320,730**		**1,195,702,039**
	BALANCE BETWEEN VALUE AND COSTS OF PRODUCTION (A - B)		**54,086,090**		**39,033,032**

Euro units		Year 2016		Year 2015 (*)	
C)	**FINANCE INCOME AND EXPENSE**				
15)	Income from equity investments				
	- in subsidiaries	11,751,346		17,669,760	
	- in other companies	3,388,130		826,157,566	
16)	Other finance income				
	d) Income other than the preceding ones	4,324,653		4,271,689	
17)	Interest and other finance expense				
	- to subsidiaries	(730,064)		(828,594)	
	- other	(3,360,353)		(117,407)	
17-*bis*)	Exchange gains and losses	(2,941,137)		(2,665,460)	
	TOTAL FINANCE INCOME AND EXPENSE		**12,432,575**		**844,487,554**
D)	**ADJUSTMENTS TO FINANCIAL ASSETS**				
18)	Write-ups:				
	a) of equity investments	205,400		0	
19)	Write-downs:				
	a) of equity investments	(5,862,630)		(12,983,870)	
	b) of financial assets other than equity investments	0		(2,411,907)	
	TOTAL ADJUSTMENTS TO FINANCIAL ASSETS		**(5,657,230)**		**(15,395,777)**
	PROFIT BEFORE TAXES (A -B +- C +- D +- E)		**60,861,435**		**868,124,809**
22)	Current, deferred and prepaid tax assets and liabilities for the year				
	Current taxes		28,704,221		(66,255,052)
	Deferred tax liabilities		500,684		590,203
	Deferred tax assets		(1,884,648)		(854,355)
	PROFIT (LOSS) FOR THE YEAR		**88,181,692**		**801,605,605**

(*) The figures for 2015 have been reclassified to reflect the introduction of new accounting standards with effect from 1 January 2016, resulting in elimination from the income statement of the extraordinary section (items E21 and E22) and consequent reclassification of items previously booked to extraordinary income and expenses to the ordinary section by nature.

Cash Flow Statement

			Year 2016	Year 2015
A	**Cash flow from operating activities**			
	Profit (loss) for the year		88,181,692	801,605,605
		Income taxes	(27,320,257)	66,519,204
		Interest expense/(income)	(234,236)	(3,317,080)
		(Dividends)	(11,751,346)	(21,056,178)
		(Gains)/Losses from the disposal of assets	(3,555,248)	(822,929,658)
	1	**Profit for the year, before income taxes, interest, dividends, gains/losses from disposals**	**45,320,605**	**20,821,893**
		Adjustments for non-monetary items that have no counter-entry in net working capital		
		Provisions	24,617,548	18,539,534
		Provisions to severance indemnities	79,843	191,994
		Amortisation and depreciation	80,697,062	48,903,510
		Write-downs/-ups of equity investments	5,657,230	12,983,870
		Other impairment losses	1,493,219	12,102,875
		Adjustments to derivative financial assets and liabilities which did not entail monetary movements	1,986,243	0
		Other adjustments for non-monetary items (third-party financing)	(1,188,168)	0
	2	**Cash flow before changes in net working capital**	**158,663,582**	**113,543,676**
		Changes in net working capital		
		Decrease/(increase) in inventories	(13,271,382)	(84,396,236)
		Decrease/(increase) in trade receivables	(13,665,197)	19,161,318
		Decrease/(increase) in receivables from subsidiaries	(68,351,731)	(22,169,701)
		Decrease/(increase) in receivables from affiliates	(748,652)	2,341,231
		Decrease/(increase) in receivables from parent companies	0	2,332,479
		Increase/(decrease) in trade payables	47,556,577	40,121
		Increase/(decrease) in payables to subsidiaries	2,118,277	1,184,333
		Increase/(decrease) in payables to affiliates	0	(3,184,045)
		Increase/(decrease) in payables to parent companies	(924,239)	(711,010)
		Decrease/(increase) in prepayments and accrued income	1,618,338	(472,991)
		Increase/(decrease) in accruals and deferred income	9,786,611	(20,767,288)
	3	**Cash flow after changes in net working capital**	**122,782,184**	**6,901,887**
		Other adjustments		
		Interest received/(paid)	730,113	3,317,080
		(Income taxes paid)	(14,338,413)	(61,934,096)
		Dividends received	11,751,346	21,056,178
		(Use of provisions)	(15,202,974)	(8,573,742)
		(Severance indemnities paid)	(1,060,260)	(1,065,104)
	Total cash flow from operating activities (A)		**104,661,996**	**(40,297,797)**

	Year 2016	Year 2015
B Cash flows from investing activities		
Tangible assets		
(Investments)	(54,359,936)	(37,625,972)
Realised price for divestments	8,033,070	2,298,977
Intangible assets		
(Investments)	(13,791,513)	(50,007,932)
Realised price for divestments		
Financial assets		
(Investments)	(37,560,737)	(579,669,716)
Realised price for divestments	11,070,863	1,165,515,471
Business unit acquisitions	(712,981,377)	(51,807,315)
Current financial assets		
(Investments)	(3,125,567)	(2,680,031)
Realised price for divestments	12,033,596	2,447,440
Total cash flows from investing activities (B)	**(790,681,601)**	**448,470,922**
C Cash flows from financing activities		
Third-party funds		
Increase (decrease) in short-term payables to banks	(3,680)	8,262
New financing	400,000,000	0
Increase (decrease) in financial payables to subsidiaries	361,263	(243,874)
Own funds		
(Dividends and advance dividends paid)	(25,200,002)	(13,425,002)
Total cash flows from financing activities (C)	**375,157,581**	**(13,660,614)**
Increase (decrease) in cash and cash equivalents (A +- B +- C)	**(310,862,024)**	**394,512,511**
Cash and cash equivalents at year-start	**673,455,996**	**278,943,485**
Cash and cash equivalents at year-end	**362,593,972**	**673,455,996**
Business unit acquisition		
Total consideration paid	(712,981,377)	(51,807,315)
of which cash	(712,981,377)	(51,807,315)
Cash and cash equivalents acquired	0	0
Carrying amount of assets/liabilities acquired	712,981,377	51,807,315

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

LAVAZZA A MODO MIO - ITALIAN ADV CAMPAIGN

FINANCIAL STATEMENTS – STRUCTURE AND CONTENTS

These Financial Statements, composed of the Balance Sheet, Income Statement, Cash Flow Statement and the Notes, have been prepared in accordance with Legislative Decree 127 of 9 April 1991, as amended by Legislative Decree 6 of 17 January 2003 and Legislative Decree 139 of 18 August 2015, and provide a true and fair view of the Company's financial position and operating performance for the year. These Financial Statements are also accompanied by the Report on Operations, as set out above.

The accounting statements have been prepared in compliance with the provisions set forth in Articles 2423-*ter*, 2424, 2424-*bis*, 2425, 2425-*bis*, 2425-*ter* of the Italian Civil Code. Figures are stated in units of Euro.

The Notes to the Financial Statements provide the information required by Articles 2427 and 2427-*bis* of the Italian Civil Code. Amounts are denominated in units of Euro, unless otherwise stated in the notes on 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.

ACCOUNTING STANDARDS APPLIED FROM 1 JANUARY 2016

Publication of Legislative Decree 139 of 18 August 2015 in Italy's *Official Journal* on 4 September 2015 marked the completion of the transposition procedure for Directive 2013/34/EU. The above Decree updates the provisions of the Italian Civil Code governing individual financial statements and the provisions of Legislative Decree 127/1991 governing consolidated financial statements.

The Decree entered into effect on 1 January 2016 and applies to financial statements for financial years starting on or after that date.

The process of revising, updating and supplementing Italian GAAP to comply with the provisions of Legislative Decree 139/2015 was completed by the Italian Accounting Standard-Setter (OIC) in 2016. The main impacts are the result of the following changes:

- Introduction of the cash flow statement as a mandatory component of the financial statements. The contents of the cash flow statement are governed by OIC 10.
- Introduction of the amortised cost method and discounting for the measurement of some types of receivables, payables and securities of a financial nature due in the medium-to-long term. The Company has exercised the option afforded by Article 12, paragraph 2, of Legislative Decree 139/2015 for prospective application, without any change to the measurement criteria for receivables, payables and securities recognised prior to 1 January 2016.
- Introduction of a dedicated accounting standard (OIC 32) on recognition, classification and measurement of derivative financial instruments, fair value measurement techniques and the disclosures to be presented in the Notes, superseding OIC 3 – *Financial Instruments: Disclosures in the Notes and the Report on Operations*.
- Change in the methods for determining the amortisation period for goodwill. Goodwill is amortised on the basis of its useful life, with a maximum limit of 20 years, and is amortised over a period of no more than ten years if its useful life cannot be estimated reliably. The Company has exercised the option afforded by Article 12, paragraph 2, of Legislative Decree 139/2015 for prospective application of this change, thereby without changing the useful lives of goodwill recognised prior to 1 January 2016.

- Elimination from the income statement of the extraordinary section (items E21 and E22) and consequent reclassification of items previously booked to extraordinary income and expenses to the ordinary section by nature. The amount and nature of individual elements of costs or revenues deemed exceptional in amount or impact must nonetheless continue to be disclosed in the Notes.
- Introduction of dedicated items of the balance sheet and income statement for balances relating to "sister companies" (companies subject to the control of the same parent).
- Elimination from the balance sheet of section III, item 4) Treasury shares, which has been reclassified to the equity and liabilities side of the balance sheet, section X, Negative reserve for treasury shares in portfolio, resulting in the reallocation of the reserve for treasury shares in portfolio (former section V of equity) to an extraordinary reserve.

BASIS OF PREPARATION AND MEASUREMENT

The Financial Statements for the year ended 31 December 2016 have been prepared in compliance with the Italian Civil Code, interpreted and supplemented by the accounting standards drawn up and revised by the Italian Accounting Standard Setter (OIC) and, in the absence of the former, and where no conflict exists, the standards issued by the International Accounting Standards Board (IASB).

In accordance with Articles 2423 and 2423-*bis* of the Italian Civil Code, the financial statements have been prepared on the basis of the going concern assumption, according to the general principles of prudence, accrual basis accounting and materiality, while taking account of the prevalence of the substance of a transaction or contract.

The criteria applied in measuring line items and determining adjustments are consistent with the provisions of the Italian Civil Code and are primarily set out under Article 2426.

The most significant measurement criteria adopted are illustrated below.

INTANGIBLE ASSETS

Intangible assets are recognised at purchase or production cost, including ancillary charges and directly attributable costs, adjusted in prior years for revaluations pursuant to Laws 408/1990, 342/2000, 350/2003 and 266/2005.

The cost of intangible assets is systematically amortised on a straight-line basis each year, considering the residual useful life of the asset. The rates applied are set out in the section of the Notes on Assets.

START-UP AND EXPANSION COSTS

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

DEVELOPMENT COSTS

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

RIGHTS FOR INDUSTRIAL PATENTS AND RIGHTS FOR EXPLOITATION OF INTELLECTUAL PROPERTY

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

CONCESSIONS, LICENCES, TRADEMARKS AND SIMILAR RIGHTS

Concessions, licences, trademarks and similar rights, where purchased for consideration, are recognised at the price paid by the Company to obtain them and are amortised according to their useful lives, which may not exceed the legal or contractual limit. The useful lives of trademarks must not exceed 20 years.

GOODWILL

Goodwill has been recognised among assets with the consent of the Board of Statutory Auditors, if it is purchased for consideration, and is amortised according to its useful life.

The Company has exercised the option for prospective application, pursuant to Article 12, paragraph 2, of Legislative Decree 139/2015, of the changes to the method for determining the amortisation period for goodwill.

Consequently, goodwill recognised prior to the year beginning on 1 January 2016 has been amortised over a period of no more than five years or, where the useful life is greater, over a period of no more than 20 years.

Goodwill recognised on or after 1 January 2016 is amortised according to its useful life, with a maximum limit of 20 years, and over a period of no more than ten years when its useful life cannot be estimated reliably.

FIXED ASSETS IN PROGRESS AND ADVANCES

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

TANGIBLE ASSETS

Tangible assets are recognised at purchase or internal production cost, revalued where required, in compliance with the monetary revaluation laws, as indicated in the relevant table.

As regards goods acquired from third parties, the purchase cost includes auxiliary charges and direct and indirect costs, to the extent reasonably attributable to the asset, from the period of production and for its remaining useful life.

Assets acquired through contribution or merger are recognised at the contribution value established in the pertinent documents on the basis of the related appraisal.

The cost of internally produced assets includes all costs directly attributable to the asset, in addition to the share of general production costs reasonably attributable to the asset with regard to the production period, until the asset is ready for use.

Ordinary maintenance costs are recognised to the income statement for the financial year in which they are incurred.

The costs of improvements and incremental expenses, including extraordinary maintenance costs, in addition to the costs of leasehold improvements capable of being separated from the assets in question, which give rise to a significant, measurable increase in the capacity, productivity or security of the assets, or which extend their useful lives, qualify as capitalisable costs and are accounted for as an increase in the value of the assets to which they refer, within the limits of the recoverable amount of the asset.

Tangible assets are depreciated on a straight-line basis each year. Depreciation is based on economic and technical rates taking account of the remaining useful lives of the assets. The rates applied are indicated in the Notes on Assets. Depreciation rates for assets put into operation during the year are reduced to 50%, under the assumption that purchases are evenly distributed throughout the year. Land is not subject to depreciation.

ASSETS HELD FOR SALE AND OBSOLETE ASSETS

When it is decided to dispose of an intangible asset, it is reclassified to current assets and then measured at the lesser of its net carrying amount and the presumed realisable value based on market performance, i.e., the price of sale in the course of normal operation, net of direct selling and disposal costs. Assets intended for sale are no longer subject to depreciation.

Obsolete assets and, more generally, assets that will no longer be used or useable in the production cycle on a permanent basis, are measured at the lesser of net carrying amount and recoverable amount, and are no longer subject to depreciation.

GRANTS TOWARDS TANGIBLE AND INTANGIBLE ASSETS

Equipment grants are recognised when it is reasonably certain that the conditions for receipt of the grant have been met and the grants will be disbursed.

They are accounted for according to the indirect method, whereby a grant indirectly reduces the cost of the fixed assets to which it refers, by booking them to item A5 of the income statement, Other income and revenues, and then deferred to subsequent years by recognising deferred income. Amortisation and depreciation of fixed assets are therefore calculated on the basis of the value of the assets, gross of the grants received.

IMPAIRMENT LOSSES ON FIXED ASSETS

At each balance sheet date, the Company assesses whether there are any indications that tangible and intangible assets (including goodwill) may have become impaired.

If such signs exist, the carrying amount of the asset is reduced to its recoverable amount, determined as the greater of fair value net of costs to sell and value in use. When the recoverable amount of an individual asset cannot be estimated, the company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. The value in use of an asset is calculated by determining the present value of the expected future cash flows according to a discount rate that reflects the current market assessment of the time value of money and the specific risks of the asset. An impairment loss is recognised if the recoverable amount is less than the net carrying amount.

Impairment losses are reversed if the grounds for recognising them no longer apply. The amount of the reversal cannot exceed the value that would have resulted if the impairment loss had never been recognised. No reversals are recognised on goodwill and capitalised expenses.

FINANCE LEASES

The accounting treatment of leases is consistent with the customary statutory practice in Italy (so-called "equity method") and involves the recognition of rent payments in the income statement as they accrue.

The adoption of the capital lease method would have entailed the recognition in the income statement, in lieu of rent payments, of interest on the residual principal of the financing and the depreciation charges on the value of the leased property, commensurate to the residual useful life of that property, as well as the recognition of the leased property as an asset and the residual debt as a liability.

Pursuant to Article 2427, paragraph 1 (22), of the Italian Civil Code, these Notes include information about the effects of the adoption of the finance lease method:

- the total amount at which the leased assets would have been carried at the reporting date, had they been considered fixed assets;
- the depreciation, impairment and 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.

EQUITY INVESTMENTS AND FINANCIAL RECEIVABLES

EQUITY INVESTMENTS

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

These are measured at cost, represented by the purchase price, the sums paid for subscription or the value attributed to the contributed assets, including ancillary costs.

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

Equity investments are reviewed in order to determine the operating performance and financial position of the investees. Such analyses are essentially based on the results achieved by the investees and their equity, as stated in their most recent financial statements.

If a comparison of the cost to the interest in equity held indicates that an investment has become impaired, it is written down accordingly. Cost is normally reduced if an investee has recorded a loss or the value of an investment has otherwise decreased and profits or other favourable events sufficient to cover the losses are not expected in the near future. If the reasons for impairment subsequently cease to exist, the original value is reversed.

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

FINANCIAL RECEIVABLES

Pursuant to Article 12, paragraph 2, of Legislative Decree 139/2015, the Company 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 the financial statements for the year ended 31 December 2016.

SECURITIES

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

Securities intended to be held by the Company for the long term are classified as fixed assets and measured at amortised cost, where applicable, less any impairment losses.

Securities recognised as current financial assets — involving temporary investment of excess liquidity that are not intended for being held by the Company for the long term — are measured at the lesser of purchase cost, including ancillary charges, and presumable market value.

INVENTORIES

Inventories are recognised at the lesser of either purchase and/or production cost and expected realisable value based on market trends.

The method used to determine the cost is the weighted average cost. The purchase cost includes directly related ancillary charges. The production cost includes directly attributable costs and the reasonably attributable share of indirect production costs, with the inclusion of finance expense up to the limit of the realisable value of the asset.

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

RECEIVABLES AND PAYABLES

Pursuant to Article 12, paragraph 2, of Legislative Decree 139/2015, the Company has opted for prospective application of the new basis of measurement of 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 values, which correspond 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.

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

CASH AND CASH EQUIVALENTS

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

ACCRUALS AND DEFERRALS

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

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are allocated to cover losses or liabilities of a stated nature or certain or probable existence, the amount or date of which were not identified at year-end. Provisions reflect the best possible estimate on the basis of available elements.

Risks for which it is merely possible that a liability will emerge are disclosed in the Notes, without recognising an accrual to a provision for risks and charges.

PROVISIONS FOR PENSION AND SIMILAR BENEFITS

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

PROVISIONS FOR TAXES, INCLUDING DEFERRED

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

EMPLOYEE LEAVING INDEMNITIES

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

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

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

COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

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

REVENUES AND COSTS

Sales of goods and services are recognised on an accrual basis, net of adjusting entries such as returns, discounts, allowances and premiums, as well as taxes directly associated with sale and any changes in estimates.

Sales of products are recognised at the time ownership is transferred, which normally coincides with shipment or delivery.

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

Costs and expenses are recognised on an accrual basis, net of adjusting entries such as returns, discounts, allowances and premiums and any changes in estimates.

DIVIDENDS

Dividends are recognised in the year in which distribution is approved by the investee.

FINANCE INCOME AND EXPENSE

All income and expenses associated with the company's financial operations are recognised on an accrual basis.

Gains and losses on the translation of items in foreign currencies are booked to item C.17-*bis* of the Income Statement "Exchange gains and losses".

INCOME TAXES FOR THE YEAR

Income taxes are recognised according to an estimate of taxable income in application of tax laws in force, while taking account of applicable exemptions and tax credits to which the Company is entitled.

The Company participates in the national tax consolidation programme pursuant to Articles 117/129 of Consolidated Law on Income Taxes (T.U.I.R.). The parent company, Finlav S.p.A., acts as consolidating company and calculates a single taxable profit or loss for the group of companies participating in tax consolidation, which thus benefit from the ability to set off taxable profit against tax losses in a single return.

If the Company contributes all of its taxable profit to tax consolidation, it recognises a payable to the parent company equal to the corporate income tax to be paid, as determined according to the consolidation contract.

The payable for regional production tax 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 2-*ter*, of Legislative Decree 471 of 18 December 1997.

In detail, mention should be made that on 19 December 2016 the company signed an Advance Pricing Agreement for the five-year period 2016-2020 with the Italian Revenue Authority concerning the disposal of assets to its European subsidiaries (France, the UK, Sweden and Austria).

The aforementioned Agreement is the result of the renewal of the previous Advance Pricing Agreement signed on 12 December 2013 for the three-year period 2013, 2014 and 2015. The transaction with the German subsidiary, already subject to a separate procedure (initiated by application dated 27 November 2014) aimed at entering into a bilateral Advance Pricing Agreement between the Italian Revenue Authority and the competent German authority, was excluded from the scope of that renewal.

CURRENCY CONVERSION CRITERIA

Transactions in currencies other than the Euro are recognised at the spot exchange rate.

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

DERIVATIVES

Derivative financial instruments are used for hedging purposes with the aim of reducing foreign exchange risk, interest rate risk and changes in market prices. All derivative financial instruments are measured at fair value in accordance with OIC 32 – *Derivative Financial Instruments*.

Derivative financial instruments were contracted in 2016 in order to hedge against the risks associated with fluctuations in foreign exchange rates and interest rates.

In accordance with the provisions of the new accounting standard OIC 32, derivative financial instruments are subject to hedge accounting if, and only if, at the inception of the hedge, the hedge has been formally designated, hedging is highly effective and the efficacy of the hedge can be reliably measured.

The derivative financial instruments entered into during the year meet the requirements to be considered hedges and thus to be subject to hedge accounting and are of the cash flow hedge variety.

In the case of derivatives hedging against the risk of changes in foreign exchange rates, the difference (premium or discount) resulting from the comparison of the amount in foreign currency envisaged in the forward contracts entered into to hedge against foreign exchange risk, translated at the exchange rate at the date of the original transaction, and the amount in foreign currency of the contract at the agreed forward rate, is booked to the income statement when the hedged transaction occurs, in accordance with paragraph 89 of the new version of OIC 32.

Derivative financial instruments with positive fair values are classified to current assets (item C.III.5 Financial derivative assets) or to provisions for risks when their fair values are negative (item B3 Provision for derivative financial derivative liabilities).

Changes in the fair value of the effective portion of hedging derivative financial instruments are accounted for through the equity reserve for the hedging of expected cash flows.

Contents of the Notes

Balance Sheet - Assets

FIXED ASSETS

INTANGIBLE ASSETS

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

Euro units

Items	Balance at 1/1/2016	Increases	Reclassifications	(Decreases)	Balance at 31/12/2016
Start-up and expansion costs					
Gross value	5,785	0	0	0	5,785
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated amortisation)	(5,785)	0	0	0	(5,785)
Net value	**0**	**0**	**0**	**0**	**0**
Development costs					
Gross value	2,759,721	3,475,241	0	0	6,234,962
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated amortisation)	(550,163)	(1,245,992)	0	0	(1,796,155)
Net value	**2,209,558**	**2,229,249**	**0**	**0**	**4,438,807**
Concessions, licences and similar rights					
Gross value	36,055,053	151,939,533	0	0	187,994,586
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated amortisation)	(21,979,243)	(8,002,954)	0	0	(29,982,197)
Net value	**14,075,810**	**143,936,579**	**0**	**0**	**158,012,389**
Trademarks					
Gross value	35,978,909	118,120,310	0	0	154,099,219
Write-ups	303,949,656	0	0	0	303,949,656
(Write-down provision)	(3,623,965)	0	0	0	(3,623,965)
(Accumulated amortisation)	(316,520,620)	(6,554,269)	0	0	(323,074,889)
Net value	**19,783,980**	**111,566,041**	**0**	**0**	**131,350,021**
Goodwill					
Gross value	25,260,970	343,200,000	2,965,401	0	371,426,371
Write-ups	0	0	0	0	0
(Write-down provision)	(4,894,056)	0	0	0	(4,894,056)
(Accumulated amortisation)	(9,516,091)	(14,972,967)	0	0	(24,489,058)
Net value	**10,850,823**	**328,227,033**	**2,965,401**	**0**	**342,043,257**

Items	Balance at 1/1/2016	Increases	Reclassifications	(Decreases)	Balance at 31/12/2016
Intangible assets in progress and advances					
Gross value	4,782,767	11,142,140	(14,933,787)	0	991,120
(Write-down provision)	0	0	0	0	0
Net value	**4,782,767**	**11,142,140**	**(14,933,787)**	**0**	**991,120**
Other intangible assets					
Gross value	12,110,226	0	11,968,386	(19,822)	24,058,791
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated amortisation)	(8,370,247)	(5,643,061)	0	19,822	(13,993,486)
Net value	**3,739,979**	**(5,643,061)**	**11,968,386**	**0**	**10,065,304**
Total intangible assets					
Gross value	116,953,431	627,877,224	0	(19,822)	744,810,833
Write-ups	303,949,656	0	0	0	303,949,656
(Write-down provision)	(8,518,021)	0	0	0	(8,518,021)
(Accumulated amortisation)	(356,942,149)	(36,419,243)	0	19,822	(393,341,570)
Net value	**55,442,917**	**591,457,981**	**0**	**0**	**646,900,898**

On 29 February 2016, the Company finalised the acquisition of a business unit responsible for the sale and distribution of coffee products under the Carte Noire brand in France. The total value of the acquisition, including ancillary costs, was €712,981,377. The allocation of the purchase price to the current values of the assets acquired was carried out with the support of an independent expert.

The following table shows the results of the transaction:

Euro units

Assets	Amount
Trademark (a)	118,120,310
Know-how (b)	149,800,000
Equity investment (c)	98,895,666
Total net assets acquired	**366,815,976**
Goodwill	346,165,401
Total cost	**712,981,377**

(a) It includes the Carte Noire trademark and domain names.
(b) It refers to know-how which is not legally protected and includes recipes and production, packaging and logistics specifications.
(c) 100% stake in Carte Noire S.a.s.

The increase in development costs is related to investments in technological innovation relating to the closed-system coffee machines Lavazza Firma, Lavazza BLUE and A Modo Mio.

The increases for the year in "Concessions, licences and similar rights" and "Trademarks" are primarily attributable to the acquisition described above and refer to the trademark (€118,120,310) and to know-how (€149,800,000).

The item "Goodwill" increased by €346,165,401 due solely to the goodwill that resulted from the acquisition of the Carte Noire business unit.

The rise in "Other intangible assets" is mainly due to the capitalisation of development costs aimed at improving the Group's reporting systems.

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

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

(*) The useful life of the intangible assets acquired during the year 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:

Euro units

Items	Balance at 1/01/2016	Increases	Reclassifications	(Decreases)	Balance at 31/12/2016
Land and buildings					
Gross value	126,464,364	174,022	1,092,926	(6,008,575)	121,722,737
Write-ups	66,906,943	0	0	(2,967,070)	63,939,873
(Write-down provision)	(10,861,230)	(5,333,464)	10,480	2,495,881	(13,688,333)
(Accumulated depreciation)	(67,378,643)	(5,004,313)	(10,480)	3,179,764	(69,213,672)
Net value	**115,131,434**	**(10,163,755)**	**1,092,926**	**(3,300,000)**	**102,760,605**
Plant and machinery					
Gross value	488,683,406	454,715	24,052,049	(12,802,220)	500,387,950
Write-ups	52,580,908	0	0	(988,681)	51,592,227
(Write-down provision)	(1,009,377)	0	193,328	349,677	(466,372)
(Accumulated depreciation)	(442,437,870)	(28,406,620)	(193,328)	13,256,762	(457,781,056)
Net value	**97,817,067**	**(27,951,905)**	**24,052,049**	**(184,462)**	**93,732,749**
Industrial and commercial equipment					
Gross value	98,436,477	15,043,636	2,057,612	(20,043,842)	95,493,883
Write-ups	1,165,417	0	0	0	1,165,417
(Write-down provision)	(1,754,898)	0	229,062	994,687	(531,149)
(Accumulated depreciation)	(78,143,265)	(9,286,978)	(229,062)	18,604,062	(69,055,243)
Net value	**19,703,731**	**5,756,658**	**2,057,612**	**(445,093)**	**27,072,908**
Furniture and fittings					
Gross value	16,772,370	399,244	169,589	(837,164)	16,504,039
Write-ups	6,587	0	0	(2,565)	4,022
(Write-down provision)	0	0	0	0	0
(Accumulated depreciation)	(14,099,241)	(721,877)	0	746,443	(14,074,675)
Net value	**2,679,716**	**(322,633)**	**169,589**	**(93,286)**	**2,433,386**

Items	Balance at 1/01/2016	Increases	Reclassifications	(Decreases)	Balance at 31/12/2016
Means of transport					
Gross value	1,032,933	0	0	(142,841)	890,092
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated depreciation)	(1,001,957)	(12,906)	0	142,841	(872,022)
Net value	**30,976**	**(12,906)**	**0**	**0**	**18,070**
Electronic machinery					
Gross value	20,296,189	2,767,076	0	(336,758)	22,726,507
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated depreciation)	(18,846,518)	(845,125)	0	333,890	(19,357,753)
Net value	**1,449,671**	**1,921,951**	**0**	**(2,868)**	**3,368,754**
Tangible assets in process and advances					
Gross value	7,100,808	35,521,245	(27,372,176)	0	15,249,877
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated depreciation)	0	0	0	0	0
Net value	**7,100,808**	**35,521,245**	**(27,372,176)**	**0**	**15,249,877**
Total tangible assets					
Gross value	758,786,547	54,359,938	0	(40,171,400)	772,975,085
Write-ups	120,659,855	0	0	(3,958,316)	116,701,539
(Write-down provision)	(13,625,505)	(5,333,464)	432,870	3,840,245	(14,685,854)
(Accumulated depreciation)	(621,907,494)	(44,277,819)	(432,870)	36,263,762	(630,354,421)
Net value	**243,913,403**	**4,748,655**	**0**	**(4,025,709)**	**244,636,349**

In accordance with the new accounting standard OIC 16 and pursuant to Article 2423-*ter*, paragraph 3, of the Italian Civil Code, “Land and buildings” decreased by €3,300,000 due to the reclassification to the item of current assets C) V) “Tangible assets held for sale” of the value of a property for which a preliminary sale agreement was signed.

The write-downs for the year relating to the items “Land and buildings” referred for €2,901,342 to the properties where the Company has currently moved as part of the reorganisation process involved in the planned transfer of operations to the new headquarters, as well as the €2,432,122 write-down of several industrial properties located in the production plants in Settimo Torinese and Gattinara.

“Plant and machinery” increased by €454,715 due to direct purchases of industrial machinery and by €24,052,049 as the result of closure of investment orders for the construction of industrial plants.

The decreases primarily refer to the disposal of production lines deemed obsolete, including some at the plant in Verrès.

The item “Industrial and commercial equipment”, which includes coffee machines and moulds held by third suppliers for the production of machine components, primarily increased due to the purchase of equipment intended for the Food Service channel for €7,000,869 and coffee machines on free loan for use to customers in the OCS segment for €7,126,980. The net decrease of €445,093 primarily relates to the conclusion of the process of taking stock of all FS equipment held by customers in the Italian territory, which resulted in the disposal and scrapping of the related assets.

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

The increase in “Electronic machinery” primarily relates to purchases of computers, hardware and monitors.

The depreciation rates applied are as follows:

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

Pursuant to Article 10 of Law 72 of 19 March 1983, the following is a statement of the write-ups applied to assets still carried at 31 December 2016:

Euro units

	Revaluation pursuant to law								
	Re. Law 576/75	Re. Law 72/83	Re. Law 408/90	Re. Law 413/91	Re. Law 342/00	Re. Law 350/03	Re. Law 266/05	Re. Law 185/08	TOTAL
Buildings	134,450	902,936	0	5,976,231	0	0	0	56,926,256	63,939,873
Plant and machinery	23,451	384,123	0	0	38,048,390	13,136,263	0	0	51,592,227
Furniture	0	4,022	0	0	0	0	0	0	4,022
Dies	0	0	0	0	187,476	977,941	0	0	1,165,417
Means of transport	0	0	0	0	0	0	0	0	0
Lavazza trademark	0	0	46,481,121	0	77,468,535	100,000,000	80,000,000	0	303,949,656
Total	**157,900**	**1,291,081**	**46,481,121**	**5,976,231**	**115,704,402**	**114,114,204**	**80,000,000**	**56,926,256**	**420,651,195**

It bears noting that, in the context of the project involving the construction of the corporate new headquarters, in 2013 the Company entered into possession of a property lot (currently hosting the Institute of Applied Arts and Design) under a finance lease agreement involving the transfer of most of the risks and rewards associated with the property in question.

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

Euro units

Assets	Amount
a) Agreements in force:	
Assets under finance lease at the end of the previous year	4,867,440
+ Assets acquired under finance lease during the year	0
– Assets under finance lease redeemed during the year	0
– Depreciation charges accrued during the year	(157,611)
+/– Impairment losses / reversals on assets under finance lease	0
Assets under finance lease at the end of the year, net of depreciation	4,709,829
b) Redeemed assets	
Total greater value of redeemed assets	0
c) Liabilities	
Constructive accounts payable for finance leases at the end of the previous year	3,604,336
+ Constructive accounts payable created during the year	0
– Repayment of principal and redemptions made during the year	(196,030)
Constructive accounts payable for finance leases at the end of the year	3,408,306
d) Reversal of prepaid expenses associated with finance leases	1,023,017
e) Reversal of payable for 2016 rent yet to be paid	67,905
f) Total gross effect at year-end (a + b – c – d – e)	346,411
g) Tax effect	(108,773)
h) Effect on equity at year-end (f – g)	**237,638**
Effect on the income statement	
Reversal of rent on finance leases	327,120
Recognition of financial expenses on finance leases	(49,400)
Recognition of:	
- depreciation charges:	
· on contracts in force	(157,611)
· on redeemed assets	0
- impairment losses / recoveries on assets under finance lease	0
Effect on pre-tax result	120,109
Recognition of tax effect	(37,724)
Effect on profit or loss of recognition of leases according to the capital lease method	**82,385**

FINANCIAL ASSETS

EQUITY INVESTMENTS

Equity investments at 31 December 2016 were broken down as follows:

Euro units		Increases		Decreases	Write-downs and reversals		
Company	**Original cost**	**Acquisitions-Incorporation**	**Capitalisa-tions**	**Disposals**	**Previous write-downs**	**Write-downs/ Write-ups for the year**	**Carrying amount**
Subsidiaries							
Lavazza Australia Pty Ltd	4,804,617						4,804,617
Lavazza Capital S.r.l.	600,100,000	21,300,000					621,400,000
Lavazza Coffee (UK) Ltd	14,843						14,843
Lavazza Deutschland G.m.b.H.	153,227						153,227
Lavazza do Brasil Ltda	24,374,545		1,100,000		(23,590,870)	(1,603,326)	280,349
Lavazza Finance Ltd	51,645,690						51,645,690
Lavazza France S.a.s.	15,173,485						15,173,485
Lavazza Kaffee G.m.b.H.	163,854						163,854
Lavazza Maroc S.a.r.l.	904						904
Lavazza Netherlands B.V.	130,000,000				(100,594,020)	(2,106,401)	27,299,579
Lavazza Premium Coffees Corp.	1,164,635						1,164,635
Lavazza Spagna S.L.	13,004,422		75,000		(12,531,699)		547,723
Lavazza Nordic AB	1,855,000				(667,242)	205,400	1,393,158
Lavazza Trading (Shenzhen) Co. Ltd	1,000,000						1,000,000
Cofincaf S.p.A.	3,063,719						3,063,719
Coffice S.A.	4,320,632		300,000		(4,198,390)	(400,048)	22,194
Immobiliare I.N.N.E.T S.r.l.	2,002,987						2,002,987
Merrild Kaffe ApS	12,119,140						12,119,140
Carte Noire S.a.s.	0	98,895,666					98,895,666
Lea S.r.l.	5,783,479		600,000		(5,469,933)	(286,565)	626,981
Total subsidiaries	**870,745,179**	**120,195,666**	**2,075,000**	**0**	**(147,052,154)**	**(4,190,940)**	**841,772,751**
Affiliates:							
Espresso Service Proximité S.A.	1,787,296						1,787,296
Internat. Coffee Part. G.m.b.H.	25,000						25,000
Total affiliates	**1,812,296**	**0**	**0**	**0**	**0**	**0**	**1,812,296**
Other companies:							
Air Vallée S.p.A.	25,823						25,823
Clubitaly S.p.A.	4,590,000			(4,590,000)			0
Casa Comm. e Turismo S.p.A.	6,094						6,094
Connect Ventures One LP	6						6
Idroelettrica S.c.r.l.	300						300
INV. A.G. S.r.l.	20,000,000				(11,246,051)	(1,466,291)	7,287,658
Tamburi Investment Partners S.p.A.	3,092,733			(3,092,733)			0
Total other companies	**27,714,956**	**0**	**0**	**(7,682,733)**	**(11,246,051)**	**(1,466,291)**	**7,319,881**
Total equity investments	**900,272,431**	**120,195,666**	**2,075,000**	**(7,682,733)**	**(158,298,205)**	**(5,657,231)**	**850,904,928**

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

Increases for the year relating to acquisitions in subsidiaries refer to the purchase of the 100% interest in Carte Noire S.a.s. (which decreased to 94.68% at the end of the year following the contribution to Carte Noire of the Retail business unit by Lavazza France S.a.s.), within the framework of the acquisition of the business unit described in the chapter "Intangible assets".

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

a) Lavazza Capital S.r.l. (€21,300,000), relating to the contribution of the financial instruments classified as financial assets and current assets pursuant to the deed dated 10 November 2016, notarised by Giovanna Ioli of Turin, as listed below:
   a. 1,375,000 ordinary shares of Tamburi Investment Partners S.p.A.;
   b. 343,750 warrants issued by Tamburi Investment Partners S.p.A. 2015-2020;
   c. 3,750 ordinary shares of Clubitaly S.p.A.;
   d. 100 class-A units of the DGPA Capital Fund;
   e. 14,008 class-A units of Debt Opportunities Plus Fund B.V.;
   f. 517 class-A units of the Innogest Capital Fund;
   g. 10 class-A units of the Ersel Investment Club Fund;
   h. Intesa Sanpaolo TV bonds — 4 October 2017;
   i. Intesa Sanpaolo TV bonds — 15 May 2018.
b) Lavazza do Brasil Ltda (€1,100,000) to cover current liquidity requirements;
c) Lavazza Spagna S.L.(€75,000) with the aim to cover losses;
d) Coffice S.A. (€300,000) with the aim to cover losses;
e) €600,000 used by Lea S.r.l. to cover losses;

The decreases during the year relating to Other Companies are attributable to the contribution to Lavazza Capital S.r.l. of 1,375,000 ordinary shares and 343,750 warrants issued by Tamburi Investment Partners S.p.A. and of 3,750 ordinary shares of Clubitaly S.p.A.

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

a) Lavazza Netherlands B.V. (€2,106,401), attributable to the write-down of the subsidiary Fresh & Honest Café Ltd. This write-down, recognised by Lavazza Netherlands B.V. to bring the carrying amount of the investment into line with the corresponding share of equity, is deemed to reflect the company's impairment loss;
b) Lavazza do Brasil Ltda (€1,603,326), attributable to the loss recognised for the year, which is deemed to be an impairment loss;
c) Coffice S.A. (€400,048), primarily attributable to the loss for the year, which is deemed to be an impairment loss;
d) Lea S.r.l. (€286,565), attributable to the loss recognised for the year, which is deemed to be an impairment loss.

The increase during the year due to write-ups of €205,400 is attributable to Lavazza Nordic AB and relates to the recovery of the full amount of the write-downs recognised in previous years in order to bring the value of the equity investment in line with the interest in equity at year-end.

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

Euro units

Company	Registered office	Share capital	Equity	Profit (loss) for the year	% held	Carrying amount
Subsidiaries						
Lavazza Australia Pty Ltd	Hawthorn	5,008,632	4,251,785	177,064	100.00	4,804,617
Lavazza Capital S.r.l.	Turin	200,000	623,815,214	2,415,214	100.00	621,400,000
Lavazza Coffee (UK) Ltd	Uxbridge	1,168	2,305,523	1,441,334	100.00	14,843
Lavazza Deutschland G.m.b.H.	Frankfurt	210,000	4,447,862	3,882,036	100.00	153,227
Lavazza do Brasil Ltda	Rio de Janeiro	19,916,787	283,180	(1,930,774)	99.43	280,349
Lavazza Finance Ltd	Dublin	51,655,000	57,888,823	(199,416)	100.00	51,645,690
Lavazza France S.a.s.	Noisy-Le-Grand	15,250,000	25,257,845	7,430,180	100.00	15,173,485
Lavazza Kaffee G.m.b.H.	Vienna	218,019	671,670	310,616	100.00	163,854
Lavazza Maroc S.a.r.l.	Casablanca	938	53,514	5,759	100.00	904
Lavazza Netherlands B.V.	Amsterdam	111,500,000	27,297,636	(2,108,345)	100.00	27,299,579
Lavazza Premium Coffees Corp.	New York	29,219,239	18,063,619	2,751,282	93.00	1,164,635
Lavazza Spagna S.L.	Barcelona	1,090,620	545,813	(1,911)	100.00	547,723
Lavazza Nordic AB	Stockholm	10,468	1,393,159	206,671	100.00	1,393,158
Cofincaf S.p.A.	Turin	3,000,000	10,729,571	536,345	99.00	3,063,719
Coffice S.A.	Buenos Aires	461,987	23,086	(383,597)	97.41	22,194
Lavazza Trading (Shenzhen) Co. Ltd	Shenzhen	1,120,393	1,073,093	25,575	100.00	1,000,000
Immobiliare I.N.N.E.T S.r.l.	Turin	30,000	239,031	19,746	100.00	2,002,987
Lea S.r.l.	Turin	100,000	627,329	(286,530)	99.90	626,981
Merrild Kaffe ApS	Middelfart	6,725	12,942,806	851,851	100.00	12,119,140
Carte Noire S.a.s.	Boulogne Billancourt	103,830,406	108,895,821	5,038,625	94.68	98,895,666
Affiliates						
Espresso Service Proximité S.A.	Bonneuil-sur-Marne	192,440	7,824,616	977,823	26.00	1,787,296
Internat. Coffee Part. G.m.b.H.	Hamburg	175,000	256,677	5,330	20.00	25,000

The values of equity investments in companies that prepare their financial statements in foreign currencies are denominated in Euro, converted at the exchange rate at 31 December 2016.

With the exception of the written-down equity investments mentioned above, any further negative differences between the carrying amounts of equity investments in subsidiaries and the proportional share of equity are not deemed to represent impairment losses.

In order to provide complete information, the table below reports a list of the indirect subsidiaries:

Euro units

Company	Registered office	Share capital	% held indirectly	% held effectively	Through	Equity	Profit (loss) for the year	Carrying amount
Almada Comercio de Café Ltda	São Paulo	291,736	100.00	100.00	Lavazza do Brasil Ltda	(304,118)	(25,466)	0
Brasilia S.a.s.	Saint Denis	150,000	100.00	100.00	Lavazza France S.a.s.	27,825	(143,238)	698,256
Merrild Baltics SIA	Riga	2,828	100.00	100.00	Merrild Kaffe ApS	870,495	170,851	2,499,535
Fresh & Honest Café Ltd*	Chennai	1,025,429	99.99	99.99	Lavazza Netherlands B.V.	26,166,267	(2,160,023)	27,658,105
Carte Noire Operations S.a.s.	Lavérune	11,517,350	100.00	100.00	Lavazza do Brasil Ltda	29,947,051	1,040,995	39,205,658

(*) The figures reported are those included in the reporting package at 31 December 2016, as the company closes its financial year at 31 March.

RECEIVABLES

They consist of:

Euro units	31/12/2016	31/12/2015	Changes
Receivables from subsidiaries	26,380,400	12,130,249	14,250,151
Other receivables	814,057	878,471	(64,414)
Total	**27,194,457**	**13,008,720**	**14,185,737**

Receivables from subsidiaries include:

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

The item "Other receivables" consists of security deposits (€230,074) and financial receivables from Connect Ventures One LP (€583,983), a company that invests in European Web business start-ups.

OTHER SECURITIES

This item consist of long-term investments, broken down as follows:

Euro units

Company	31/12/2015	Increases	Decreases	Write-downs	31/12/2016
DGPA Capital fund	964,827	0	(964,827)	0	0
Innogest Capital fund	1,930,859	0	(1,930,859)	0	0
Ersel Investment Club fund	3,371,451	0	(3,371,451)	0	0
Debt Opportunities Plus-A Fund	2,180,959	0	(2,180,959)	0	0
Intesa Sanpaolo TV bonds – 15 May 2018	1,539,000	0	(1,539,000)	0	0
Intesa Sanpaolo TV bonds – 4 October 2017	500,000	0	(500,000)	0	0
Intesa Sanpaolo TV bonds – 23 December 2016	1,546,500	0	(1,546,500)	0	0
Total	**12,033,596**	**0**	**(12,033,596)**	**0**	**0**

The decrease in the Intesa Sanpaolo TV bonds (23 January 2016) was due to their natural maturity during the year.

All of the other securities detailed below were contributed to Lavazza Capital S.r.l. by deed dated 10 November 2016, notarised by Giovanna Ioli of Turin:

a. 100 class-A units of the DGPA Capital Fund;

b. 14,008 class-A units of Debt Opportunities Plus Fund B.V.;

c. 517 class-A units of the Innogest Capital Fund;

d. 10 class-A units of the Ersel Investment Club Fund.

e. Intesa Sanpaolo TV bonds — 4 October 2017;

f. Intesa Sanpaolo TV bonds — 15 May 2018,

INFORMATION ON FAIR VALUE — ARTICLE 2427-*bis*, PARAGRAPH 1(2)

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

Financial assets	Carrying amount	Fair value
Equity investments in other companies		
INV. A.G. S.r.l.	7,287,658	7,287,658
Other	32,223	32,223
Total equity investments in other companies	**7,319,881**	**7,319,881**
Other receivables		
Financial receivables from subsidiaries	26,380,400	26,380,400
Guarantee deposits	230,074	230,074
Receivables from Connect Ventures One LP	583,983	1,265,550
Total other receivables	**27,194,457**	**27,876,024**

Current assets

INVENTORIES

Euro units	31/12/2016	31/12/2015	Changes
Raw materials, ancillaries and consumables	181,169,020	172,092,403	9,076,617
Accumulated depreciation of raw materials, ancillaries and consumables	(650,000)	(650,000)	0
Raw materials, ancillaries and consumables (net value)	**180,519,020**	**171,442,403**	**9,076,617**
Work-in-process and semi-finished products	1,246,583	1,829,722	(583,139)
Accumulated depreciation of work-in-process and semi-finished goods	(100,000)	(78,805)	(21,195)
Work-in-process and semi-finished products (net value)	**1,146,583**	**1,750,917**	**(604,334)**
Finished products and goods	86,898,657	85,440,171	1,458,486
Accumulated depreciation of finished products and goods	(12,145,755)	(11,268,194)	(877,561)
Finished products and goods (net value)	**74,752,902**	**74,171,977**	**580,925**
Total	**256,418,505**	**247,365,297**	**9,053,208**
Advances	**1,875,245**	**957,071**	**918,174**
Total	**258,293,750**	**248,322,368**	**9,971,382**

The quantities of raw materials in stock at 31 December 2016 increased compared to the previous year due to greater procurement needs related to the production of Carte Noire-branded coffee products.

Inventories at 31 December 2016 are recognised net of an inventory write-down provision totalling €12,895,755, which accounts for obsolescence and slow turnover, primarily relating to vending systems and spare parts, advertising materials and plant spares.

RECEIVABLES

The following tables show movements of receivables and their adjustment provisions during the year, in addition to their balance at 31 December 2016:

Euro units	Original cost at 31/12/2015	Increases (Decreases)	Original cost at 31/12/2016	Write-down provision at 31/12/2015	Provisions	Uses	Write-down provision at 31/12/2016	Expected realisable value at 31/12/2016
Trade receivables	161,460,839	9,660,370	171,121,209	9,991,879	1,439,934	5,444,761	5,987,052	165,134,157
Receivables from subsidiaries	115,489,722	65,671,700	181,161,422	0	0	0	0	181,161,422
Receivables from affiliates	6,159,324	748,652	6,907,976	0	0	0	0	6,907,976
Receivables from parent companies	1,872,649	37,977,930	39,850,579	0	0	0	0	39,850,579
Tax receivables	24,720,390	(8,456,001)	16,264,389	0	0	0	0	16,264,389
Deferred tax assets	20,104,483	1,449,396	21,553,879	0	0	0	0	21,553,879
Other receivables								
within 12 months	6,070,756	1,403,781	7,474,537	0	0	0	0	7,474,537
after 12 months	24,728,098	0	24,728,098	0	0	0	0	24,728,098
Total	**360,606,261**	**108,455,828**	**469,062,089**	**9,991,879**	**1,439,934**	**5,444,761**	**5,987,052**	**463,075,037**

The nominal value of disputed trade receivables, as well as doubtful and hardly recoverable receivables, amounted to approximately €4,227,440.

An adjustment provision totalling €5,987,052 was made, an amount considered adequate to adjust the nominal value of trade receivables to their expected realisable value.

The item "Other receivables" due after one year refers to the sums paid to the leasing company for the future up-front payment on the lease of the property on which to build the Company's new headquarters.

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

Euro units	Italy	Other EU countries	Other European countries	Americas	Australia	Other continents	Total
Trade receivables	121,577,085	23,666,416	8,529,131	986,364	332,726	10,042,435	165,134,157
Receivables from subsidiaries	132,209	141,155,058	0	26,433,176	12,042,831	1,398,148	181,161,422
Receivables from affiliates	0	6,907,976	0	0	0	0	6,907,976
Receivables from parent companies	39,850,579	0	0	0	0	0	39,850,579
Tax receivables	16,264,389	0	0	0	0	0	16,264,389
Prepaid tax credits	21,553,879	0	0	0	0	0	21,553,879
Other receivables	27,931,128	679,542	118,704	616,739	1,212,735	1,643,787	32,202,635
Total	**227,309,269**	**172,408,992**	**8,647,835**	**28,036,279**	**13,588,292**	**13,084,370**	**463,075,037**

Receivables from subsidiaries refer to the following companies:

Euro units	31/12/2016	31/12/2015	Changes
Trade receivables:			
Direct subsidiaries			
Lavazza Australia Pty Ltd	12,042,831	3,102,278	8,940,553
Lavazza do Brasil Ltda	2,170,459	1,681,764	488,695
Lavazza Capital S.r.l.	37,236	0	37,236
Lavazza Coffee (UK) Ltd	16,692,440	16,327,942	364,498
Lavazza Deutschland G.m.b.H.	37,029,408	33,761,995	3,267,413
Lavazza France S.a.s.	13,270,959	12,522,849	748,110
Lavazza Kaffee G.m.b.H.	3,290,760	2,910,961	379,799
Lavazza Netherland B.V.	19,668	19,668	0
Lavazza Nordic AB	2,917,263	2,150,115	767,148
Lavazza Premium Coffees Corp.	23,001,441	29,068,302	(6,066,861)
Lavazza Spagna S.L.	100,484	2,003,470	(1,902,986)
Coffice S.A.	1,261,276	954,279	306,997
Merrild Kaffe ApS	7,099,863	7,076,968	22,895
Carte Noire S.a.s.	60,314,882	0	60,314,882
Cofincaf S.p.A.	59,084	51,267	7,817
Lea S.r.l.	35,889	31,748	4,141
Indirect subsidiaries			
Carte Noire Operations S.a.s.	40,027	0	40,027
Fresh & Honest Café Ltd	1,398,148	1,129,790	268,358
Total trade receivables	**180,782,118**	**112,793,396**	**67,988,722**
Financial receivables:			
Cofincaf S.p.A.	0	16,295	(16,295)
Lavazza Australia Pty Ltd	305,288	0	305,288
Carte Noire Operations S.a.s.	74,016	0	74,016
Merrild Kaffe ApS	0	2,680,031	(2,680,031)
Total financial receivables	**379,304**	**2,696,326**	**(2,317,022)**
Total receivables from subsidiaries	**181,161,422**	**115,489,722**	**65,671,700**

Receivables from affiliates amounted to €6,907,976, and refer exclusively to Espresso Service Proximité S.A.

Receivables of a financial nature from subsidiaries refer to the portion of the interest accrued at 31 December 2016 on loans issued to subsidiaries and carried among financial assets.

Receivables from parent companies refer to receivables from Finlav S.p.A. for IRES within the framework of the national tax consolidation programme and include the tax benefit for the years 2007 to 2011 of approximately €1.8 million, deriving from the introduction of Legislative Decree 201/2011 (converted by Law 214 of 27 December 2011), which allows for the deduction from IRES of the IRAP associated with the taxable portion of personnel and similar expenses starting in tax period 2007.

Tax receivables of €16,264,389 are primarily represented by: receivables from foreign tax authorities deriving from direct identification for VAT purposes in the countries concerned, amounting to €8,433,433; IRAP for €1,122,216; the credit regarding a tax relief mechanism for investments in operating assets pursuant to Article 18 of Legislative Decree 91 of 24 June 2014 (the so-called "Competitiveness Decree"), converted, with amendments, by Law 116 of 7 August 2014; and the credit for research and development introduced by the 2015 Stability Law

(Law 190/2014), totalling €6,415,963.

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" consists mainly of the following receivables:

Euro units	**31/12/2016**	**31/12/2015**	**Changes**
From suppliers for advances	6,292,698	5,527,298	765,400
From leasing companies	24,728,098	24,728,098	0
Other items	1,181,839	543,458	638,381
Expected realisable value	**32,202,635**	**30,798,854**	**1,403,781**

With respect to receivables from leasing companies, it should be noted that in June 2011 the Company entered into a finance lease agreement governing the construction of a real-estate complex in Turin that is to be home to the Company's new headquarters. The term of the agreement, which provides for a budget of up to €130 million, has been set at 18 years commencing on the date of delivery (scheduled for 2017).

The amount recognised under the above item represents the costs incurred by the leasing company through to 31 December 2014, invoiced to the Company as advance rent. These costs have been suspended and therefore will affect profit or loss beginning in the period in which the date of delivery falls and the rent accrues.

CURRENT FINANCIAL ASSETS

FINANCIAL DERIVATIVE ASSETS

The item includes the increase in the fair value of derivative instruments outstanding at 31 December 2016 to hedge the exposure in U.S. dollars for the purchase of green coffee.

The following table provides a detailed description:

Type of contract	Purpose	Notional value	Financial risk of underlying asset	Fair value	Asset/liability covered
Forward	Hedging	€100,000,000	USD exchange rate risk	5,805,598	Purchases of green coffee

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

	31/12/2015	Increases	Decreases	31/12/2016
Derivatives to hedge foreign exchange risk	13,598,898	5,805,598	13,598,898	5,805,598

CASH AND CASH EQUIVALENTS

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

The following table provides a detailed description:

Euro units	31/12/2016	31/12/2015	Changes
Bank accounts	335,334,222	616,980,175	(281,645,953)
Post office accounts	11,349,201	51,244,777	(39,895,576)
Foreign currency accounts	15,862,794	5,184,449	10,678,345
Cash and valuables on hand	47,755	46,595	1,160
Total	**362,593,972**	**673,455,996**	**(310,862,024)**

The sharp decrease in cash and cash equivalents was due to a significant extent to the purchase of the business unit responsible for the sale and distribution of coffee products under the Carte Noire brand in France.

Foreign currency accounts consist of USD 16,717,051 and ZAR 53,761 and are primarily funded by market purchases, collections of receivables from the U.S. subsidiary Lavazza Premium Coffees Corp. and collections of receivables from international customers.

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

TANGIBLE ASSETS HELD FOR SALE

In accordance with the new accounting standard OIC 16 and pursuant to Article 2423-*ter*, paragraph 3, of the Italian Civil Code, the item "Tangible assets 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 a property of €3,300,000 for which a preliminary sale agreement was signed during the year.

PREPAYMENTS AND ACCRUED INCOME

The item consists of the following:

Euro units	31/12/2016	31/12/2015	Changes
Accrued income:			
Interest income	0	9,352	(9,352)
Derivative premiums	17,636	783,387	(765,751)
Total accrued income	**17,636**	**792,739**	**(775,103)**
Prepayments:			
Insurance premiums	781,889	774,020	7,869
Association fees and subscriptions	8,225	17,188	(8,963)
Maintenance contracts	344,107	591,167	(247,060)
Property rentals	26,019	34,058	(8,039)
Property leases	1,023,017	1,094,464	(71,447)
Advertising expenses	5,812,396	4,785,458	1,026,938
Other prepayments	1,728,023	727,979	1,000,044
Total prepayments	**9,723,676**	**8,024,334**	**1,699,342**
Total prepayments and accrued income	**9,741,312**	**8,817,073**	**924,239**

Accrued derivative premium income refers to the recognition of forward points on the derivative contracts hedging against euro/South African rand foreign exchange risk as at 31 December 2016 (the difference between the spot rate on the date of execution of the contract and the contractual forward rate).

The amounts in question will be fully recognised in the Income Statement when the hedged costs are recognised.

The item “Property leases” under “Prepayments” refers to the residual amount of an up-front payment made upon the signing of a finance lease contract for a property lot (home to the Institute of Applied Arts and Design), which is allocated to the Income Statement on an accrual basis according to the term of the contract.

The item “Advertising expenses” under "Prepayments” refers primarily to the portion not accrued during the year of advance payments made to customers in the Food Service sector for the sponsorship of Lavazza products in the points of sale. Such costs will be recognised in the Income Statement on an accrual basis according to the term of the contract.

Balance Sheet - Equity and Liabilities

EQUITY

SHARE CAPITAL

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

REVALUATION RESERVE

The following table provides a breakdown of revaluation reserves:

Euro units	**31/12/2016**
Re. Law 576/1975 *	28,033
Re. Law 72/1983**	267,518
Re. Law 408/1990	25,096,319
Re. Law 413/1991	5,680,818
Re Law 342/2000 ***	103,048,413
Re. Law 448/2001	5,100,000
Re. Law 350/2003 ****	93,900,327
Re. Law 266/2005	70,400,000
Re. Law 185/2008	58,200,000
Total revaluation reserves	**361,721,428**

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

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

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

Euro units

Nature/description	**Amount**	**Possibility of use**	**Amount available for distribution**
Share capital	**25,000,000**		
Capital reserves			
Share premium account	223,523	A B C	223,523
Reserve for treasury shares	0	Restricted	0
Revaluation reserve Re. Law 576/1975	28,033	A B C	28,033
Revaluation reserve Re. Law 72/1983	267,518	A B C	267,518
Revaluation reserve Re. Law 408/1990	25,096,319	A B C	25,096,319
Revaluation reserve Re. Law 413/1991	5,680,818	A B C	5,680,818
Revaluation reserve Re. Law 342/2000	103,048,413	A B C	103,048,413
Revaluation reserve Re. Law 448/2001	5,100,000	A B C	5,100,000
Revaluation reserve Re. Law 350/2003	93,900,327	A B C	93,900,327
Revaluation reserve Re. Law 266/2005	70,400,000	A B C	70,400,000
Revaluation reserve Re. Law 185/2008	58,200,000	A B C	58,200,000
Reserve from profits			
Legal reserve	5,000,000	B	0
Extraordinary reserve	202,679,758	A B C	202,679,758
Reserve Re. Art. 18 Presidential Decree 675/1977	16,892	A B C	16,892
Reserve Re. Art. 55 Law 526/1982	86,235	A B C	86,235
Reserve Re. Law 130/1983	162,463	A B C	162,463
Reserve Re. Law 46/1982	90,785	A B C	90,785
Reserve Re. Law 488/1992	380,808	A B C	380,808
Reserve Re. Art. 55 Presidential Decree 917/1986	212,481	A B C	212,481
Restricted reserve arising from exchange gains	519,728	Restricted	0
Merger surplus reserve	56,953,074	A B C	56,953,074
Retained earnings	1,388,654,046	A B C	1,388,654,046
Negative reserve for treasury shares	(17,732,533)	Restricted	0
Cash flow hedge reserve	2,769,930	Restricted	0
Total	**2,026,738,618**		**2,011,181,493**
Amount not available for distribution* **			**30,567,767**
Amount available for distribution			**1,980,613,726**

Legend:
A: for capital increase
B: for loss coverage
C: for distribution to shareholders
**** with as yet unamortised expenses of multi-year utility*

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

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

NEGATIVE RESERVE FOR TREASURY SHARES

In accordance with Legislative Decree 139 of 18 August 2015, implementing Directive 2013/34/EU, amending Article 2357-*ter* of the Italian Civil Code, in these financial statements the value of treasury shares in portfolio was recognised for the first time to a specific negative equity reserve.

The item "Treasury shares", carried among "Financial assets", was concurrently derecognised, releasing the related restricted equity reserve.

Treasury shares in portfolio amounted to 2,499,998 ordinary shares, with a nominal value of €1 each, accounting for approximately 10% of share capital.

No other Lavazza Group company owns Luigi Lavazza S.p.A. shares.

CASH FLOW HEDGE RESERVE

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

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

Euro units	31/12/2015	Increases	Decreases	31/12/2016
Derivatives hedging USD exchange risk	12,332,502	5,203,995	12,332,502	5,203,995
Derivatives hedging ZAR exchange risk	0	0	9,114	(9,114)
Derivatives hedging interest rate risk	0	0	1,550,236	(1,550,236)
Reclassification of deferred tax assets	0	3,334,044	0	3,334,044
Reclassification of deferred tax liabilities	0	0	4,208,759	(4,208,759)
Total	**12,332,502**	**8,538,039**	**18,100,611**	**2,769,930**

RETAINED EARNINGS

The retained earnings reserve decreased by €783,687 due to application of the new accounting standard OIC 32, paragraph 89, which governs the accounting treatment of derivative financial instruments on planned transactions. This amount represents the fair value changes of the interest element of the derivative instruments (forward) outstanding as at the end of the previous year, booked to the income statement for that year on an accrual basis.

This reclassification was necessary to comply with the new accounting standard, which requires that the changes in the time value of derivative instruments be booked to the income statement solely in the year in which the planned transaction occurs, and thus at the maturity of the derivative instrument.

STATEMENT OF CHANGES IN EQUITY

Euro units	31/12/2015	Changes	1/1/2016	Year movements: Increases	Year movements: Decreases	31/12/2016
Share capital	25,000,000	0	25,000,000	0	0	25,000,000
Share premium account	223,523	0	223,523	0	0	223,523
Monetary revaluation reserves	361,721,428	0	361,721,428	0	0	361,721,428
Legal reserve	5,000,000	0	5,000,000	0	0	5,000,000
Reserve for treasury shares in portfolio	17,732,533	0	17,732,533	0	(17,732,533)	0
Negative reserve for treasury shares in portfolio	0	0	0	(17,732,533)	0	(17,732,533)
Extraordinary reserve	182,428,517	0	182,428,517	20,251,241	0	202,679,758
Other reserves	3,988,099	0	3,988,099	0	(2,518,708)	1,469,391
Cash flow hedge reserve	0	0	0	2,769,930	0	2,769,930
Merger surplus reserve	56,953,074	0	56,953,074	0	0	56,953,074
Retained earnings	613,032,130	(783,686)	612,248,444	776,405,602	0	1,388,654,046
Profit (loss) for the year	801,605,605	0	801,605,605	88,181,692	(801,605,605)	88,181,692
TOTAL EQUITY AT 31 DECEMBER 2016	**2,067,684,909**	**(783,686)**	**2,066,901,223**	**869,875,932**	**(821,856,846)**	**2,114,920,309**

PROVISIONS FOR RISKS AND CHARGES

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

Euro units	31/12/2015	Effect of hedge derivatives	Reversals	Provisions for the year	Uses and eliminations for the year	31/12/2016
Provisions for taxes, including deferred:						
Provision for taxes	4,037,083	0	0	0	0	4,037,083
Provision for deferred tax liabilities	1,902,156	4,208,760	0	169,275	(669,960)	5,610,231
Total provisions for taxes, including deferred	**5,939,239**	**4,208,760**	**0**	**169,275**	**(669,960)**	**9,647,314**
Other provisions:						
For legal issues	5,335,850	0	0	5,830,170	(3,999,576)	7,166,444
Provisions for endorsements and guarantees	1,174,361	0	0	565,989	(277,531)	1,462,819
For agents' customer compensation	2,802,965	0	0	308,679	(280,353)	2,831,291
For coffeemakers warranties and returns	2,990,235	0	(670,683)	0	(2,319,552)	0
For customers' goodwill compensation	663,905	0	(19,466)	0	(644,439)	0
Provision for sundry personnel costs	7,422,108	0	0	8,889,341	(3,768,107)	12,543,342
Provision for restructuring	5,325,865	0	0	2,677,000	(2,553,307)	5,449,558
Financial derivative liabilities	0	1,968,334	0	0	0	1,968,334
Total other provisions	**25,715,289**	**1,968,334**	**(690,149)**	**18,271,179**	**(13,842,865)**	**31,421,788**
Total provisions for risks and charges	**31,654,528**	**6,177,094**	**(690,149)**	**18,440,454**	**(14,512,825)**	**41,069,102**

The provision for taxes was established on a prudential basis to account for the IRES (corporate income tax) and IRAP (regional production tax) assessment notices received in 2015 and 2016.

In 2016, the Company appealed all of the 2010 transfer pricing charges, in consideration of the activation of amicable procedures in application of the Arbitration Convention with France, the UK and Germany.

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

The provision for legal issues, which also includes provisions for labour law disputes, has been adjusted on the basis of ongoing disputes. It includes some reclassifications for sums previously allocated to specific provisions that in the course of the year developed into litigation.

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

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

The provision for coffee machines warranties and returns was drawn down during the year to cover such costs.
The remainder was released due to the elimination of the risk as a result of the termination of the distribution agreement for the coffeemakers within U.S. territory.

The item "Other provisions – for customers' goodwill compensation" was established to handle assumed charges that could arise from termination of commercial relations with several customers in the vending and retail sectors generally operating on foreign markets; the item was written down to zero following the termination of the commercial relationships with such distributors.

At 31 December 2016, the "Provision for sundry personnel costs" included the accruals and uses for employee bonuses and incentives.

The provision for restructuring, associated with the process of reorganising and rationalising the production system of Lavazza, was adjusted during the year and was partially drawn down to cover the costs associated with the disposal of the Verrès production facility.

FINANCIAL DERIVATIVE LIABILITIES

The item includes the decrease in the fair values of the derivative instruments outstanding as at 31 December 2016 to hedge against the exposure in South African rand and to hedge against changes in interest rates associated with mortgage and lease contracts.

The following table provides a detailed description:

Type of contract	Purpose	Notional value	Financial risk of underlying asset	Fair value	Asset/liability covered
Forward	Hedging	ZAR 14,562,000	ZAR exchange rate risk	(10,494)	Sales
Flexible Forward	Hedging	ZAR 6,000,000	ZAR exchange rate risk	(55,104)	Sales
Differences in the maturities of IRSs	Hedging	€400,000,000	Interest rate risk	(352,500)	Financing received
Interest Rate Swap	Hedging	€400,000,000	Interest rate risk	(1,487,979)	Financing received
Interest Rate Swap	Hedging	€45,000,000	Interest rate risk	(62,257)	Lease contract
Total				**(1,968,334)**	

Fair value data are in units of Euro

The following table shows the movements in the year:

Euro units	31/12/2015	Increases	Decreases	31/12/2016
IRSs	0	352,500	0	352,500
Derivatives hedging ZAR exchange risk	0	65,598	0	65,598
Derivatives hedging interest rate risk	0	1,550,236	0	1,550,236
Total	**0**	**1,968,334**	**0**	**1,968,334**

EMPLOYEE LEAVING INDEMNITIES

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

Euro units	
Balance at 31 December 2015 net of tax prepayments pursuant to Law 662/96	**18,334,174**
Indemnities paid out during the year	(793,078)
Advance payments	(267,182)
Revaluation for the year	79,843
Balance at 31 December 2016	**17,353,757**

Employee leaving indemnities at 31 December 2016 reflected accrued indemnities due to employees until the date they choose a supplemental pension scheme. This amount will be eliminated with the payments that will take place when employment relationships terminate or in case of any advances made as per law.

In compliance with Legislative Decree 124/93 and subsequent company agreements, €3,956,721 were allocated to the following bodies for financing supplemental pension schemes.

Alifond	Euro	1,986,009
Fon.te.	Euro	460,598
Fopadiva	Euro	63,784
Previndai	Euro	1,446,330

LIABILITIES

Liabilities at 31 December 2016 were broken down as follows:

Euro units	**31/12/2016**	**31/12/2015**	**Changes**
Payables to banks			
- due within one year	35,008,622	12,302	34,996,320
- due after one year	363,432,994	0	363,432,994
Advance payments	30,564	26,847	3,717
Trade payables	225,432,135	177,879,275	47,552,860
Payables to subsidiaries	10,932,824	8,453,284	2,479,540
Payables to the Parent Company	4	7,795,379	(7,795,375)
Tax payables	13,379,242	2,900,899	10,478,343
Social security liabilities	5,107,267	4,780,156	327,111
Other liabilities	38,115,180	39,747,497	(1,632,317)
Total	**691,438,832**	**241,595,639**	**449,843,193**

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

The loan was then converted to fixed rate through an interest rate swap.

The following table provides a breakdown by geographical area:

Euro units	Italy	Other EU countries	Other European countries	Americas	Australia	Other continents	Total
Payables to banks	398,441,616	0	0	0	0	0	398,441,616
Advance payments	30,564	0	0	0	0	0	30,564
Trade payables	161,063,849	31,390,319	14,772,441	5,905,282	0	12,300,244	225,432,135
Payables to subsidiaries	882,269	5,200,995	0	2,949,827	553,974	1,345,759	10,932,824
Payables to the Parent Company	4	0	0	0	0	0	4
Tax payables	13,379,242	0	0	0	0	0	13,379,242
Social security liabilities	5,107,267	0	0	0	0	0	5,107,267
Other liabilities	35,198,353	1,302,659	6,680	14,145	0	1,593,343	38,115,180
Total	**614,103,164**	**37,893,973**	**14,779,121**	**8,869,254**	**553,974**	**15,239,346**	**691,438,832**

The following table provides a breakdown of payables to subsidiaries:

Euro units	31/12/2016	31/12/2015	Changes
Trade payables:			
Direct subsidiaries			
Lavazza Australia Pty Ltd	553,974	1,221,314	(667,340)
Lavazza do Brasil Ltda	132,720	23,966	108,754
Lavazza Coffee (UK) Ltd	789,318	608,372	180,946
Lavazza Deutschland G.m.b.H.	22,465	257,914	(235,449)
Lavazza France S.a.s.	877,775	2,634,921	(1,757,146)
Lavazza Maroc S.a.r.l.	36,097	28,826	7,271
Lavazza Netherland B.V.	374,737	266,566	108,171
Lavazza Kaffee G.m.b.H.	0	148	(148)
Lavazza Premium Coffees Corp.	2,817,107	1,063,075	1,754,032
Lavazza Spagna S.L.	237,754	486,200	(248,446)
Lavazza Trading (Shenzhen) Co. Ltd	571,022	587,217	(16,195)
Cofincaf S.p.A.	210,204	666,685	(456,481)
Immobiliare I.N.N.E.T S.r.l	0	34,936	(34,936)
Lea S.r.l.	14,127	6,088	8,039
Merrild Kaffe ApS	107,660	0	107,660
Indirect subsidiaries			
Carte Noire Operations S.a.s.	2,791,286	0	2,791,286
Fresh & Honest Café Ltd	738,641	234,931	503,710
Total trade payables	**10,274,887**	**8,121,159**	**2,153,728**
Financial payables:			
Cofincaf S.p.A.	47,161	82,612	(35,451)
Lea S.r.l.	610,776	249,513	361,263
Total financial payables	**657,937**	**332,125**	**325,812**
Total payables to subsidiaries	**10,932,824**	**8,453,284**	**2,479,540**

Tax payables consist of the following:

Euro units	31/12/2016	31/12/2015	Changes
VAT payables	10,560,355	0	10,560,355
Income tax to be paid as withholding agents	2,741,899	2,812,070	(70,171)
Other taxes	76,988	88,829	(11,841)
Total	**13,379,242**	**2,900,899**	**10,478,343**

The item "Other liabilities" consists of the following:

Euro units	31/12/2016	31/12/2015	Changes
Trade discounts payables	23,769,794	24,409,076	(639,282)
Payables to personnel	12,675,329	12,644,694	30,635
Sureties received from third parties	1,337,191	960,021	377,170
Investments in mutual funds	95,127	1,422,084	(1,326,957)
Other	237,739	311,622	(73,884)
Total	**38,115,180**	**39,747,497**	**(1,632,318)**

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

Payables for investments in mutual funds refer chiefly to units underwritten but not yet called up in Connect Ventures One LP, a company that invests in European Web business start-ups. The decreases for the year are attributable to the remaining capital commitments to the funds Innogest Capital and Ersel Investment Club, contributed to the subsidiary Lavazza Capital S.r.l. during the year.

ACCRUALS AND DEFERRED INCOME

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

Euro units	31/12/2016	31/12/2015	Changes
Accruals:			
Interest paid	616,500	0	616,500
14th month salary	3,127,177	3,016,292	110,885
Total accruals	**3,743,677**	**3,016,292**	**727,385**
Deferred income:			
on contributions as per Leg. Decree 91/2014	3,800,703	2,754,359	1,046,344
on franchising entry fees	119,921	275,312	(155,391)
Total deferred income	**3,920,624**	**3,029,671**	**890,953**
Total accruals and deferred income	**7,664,301**	**6,045,963**	**1,618,338**

Income Statement

Reclassification of 2015 extraordinary section items

The elimination from the income statement of the extraordinary section (items E21 and E22) has resulted in the consequent reclassification of items previously booked to extraordinary income and expenses to the ordinary section by nature.

The reclassifications made to the previous' year financial statements for the purpose of comparison are showed in the following tables.

	Year 2015
Extraordinary income:	
Contingent income	1,791,830
Other extraordinary income	8,608
Gains from the disposal of the equity investment in Keurig Green Mountain Inc.	822,771,148
Total extraordinary income	**824,571,586**
Extraordinary expense:	
Returns on prior years' sales	1,275,268
Prior years' income taxes	4,037,083
Prior years' taxes	38,880
Write-downs of fixed assets following the transfer to the new headquarters	10,794,624
Provision for charges related to the disposal of the production plant in Verrès	5,325,865
Prior years' costs	2,099,083
Claim compensation	12,374,218
Other miscellaneous expense	347,334
Total extraordinary expense	**36,292,355**
Total extraordinary income and expense	**788,279,231**

	Year 2015	Reclassification of extraordinary income	Reclassification of extraordinary expense	Year 2015 restated
Sales	1,205,733,377	0	(1,275,268)	1,204,458,109
Change in inventories	7,466,029	0	0	7,466,029
Other income and revenues	21,019,103	1,791,830	0	22,810,933
Purchases	(648,400,117)	0	0	(648,400,117)
Costs of services	(399,914,551)	0	(52,013)	(399,966,564)
Use of third-party assets	(9,385,709)	0	0	(9,385,709)
Wages and salaries	(118,488,460)	0	(4,274,244)	(122,762,704)
Amortisation, depreciation and write-downs	(51,043,361)	0	(10,794,624)	(61,837,985)
Provisions for risks	(3,223,925)	0	(1,325,865)	(4,549,790)
Change in inventories of raw material	78,475,115	0	0	78,475,115
Other operating charges	(12,741,027)	0	(14,533,258)	(27,274,286)
Other finance income	4,263,081	8,608	0	4,271,689
Income from subsidiaries	17,669,760	0	0	17,669,760
Other income from equity investments in other companies	3,386,418	822,771,148	0	826,157,566
Interest and other finance expense	(946,001)	0	0	(946,000)
Exchange gains and losses	(2,665,460)	0	0	(2,665,460)
Adjustments to financial assets	(15,395,777)	0	0	(15,395,777)
Extraordinary income	824,571,586	(824,571,586)	0	0
Extraordinary expense	(36,292,355)	0	36,292,355	0
Income taxes for the year	(62,482,121)	0	(4,037,083)	(66,519,204)
Profit for the year	**801,605,605**	**0**	**0**	**801,605,605**

VALUE OF PRODUCTION

SALES OF GOODS AND SERVICES

Sales for the year were broken down as follows:

Euro units	**Year 2016**	Year 2015	Changes
Sales of packaged coffee	1,040,556,160	812,928,028	227,628,132
Sales of coffee capsules for vending systems	278,936,420	277,659,818	1,276,602
Sales of other food products	23,121,086	18,610,830	4,510,256
Sales of coffee machines, equipment and accessories	66,051,711	72,703,129	(6,651,418)
Sales of spare parts and accessories for coffee machines	7,130,238	8,261,453	(1,131,215)
Sales of advertising material	8,690,153	9,736,049	(1,045,896)
Sales of packaging	681,532	753,518	(71,986)
Sales of other products	2,220,491	1,260,369	960,122
Sales of raw material and other accessories	2,396,546	2,544,915	(148,369)
Total	**1,429,784,337**	**1,204,458,109**	**225,326,228**

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

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

Euro units

Destination	Subsidiaries	Other customers	Total
European Union	364,476,010	166,654,171	531,130,181
Other European countries	0	40,600,434	40,600,434
U.S.A.	32,277,757	1,698,692	33,976,449
Rest of the world	23,201,266	49,868,125	73,069,391
Total sales abroad	**419,955,033**	**258,821,422**	**678,776,455**
Total sales in Italy	**37,413**	**750,970,469**	**751,007,882**
Total	**419,992,446**	**1,009,791,891**	**1,429,784,337**

OTHER INCOME AND REVENUES

Other income and revenues refer to the following items:

Euro units	**Year 2016**	Year 2015	Changes
Grants	3,600,092	763,636	2,836,456
Rentals	550,482	1,092,636	(542,154)
Ordinary capital gains	74,728	192,830	(118,102)
Extraordinary capital gain	860,000	0	860,000
Royalties for the use of our trademarks	1,762,465	2,712,411	(949,946)
Charge-backs to Group companies	53,152,287	13,525,347	39,626,940
Income from compensation for damages	926,856	1,825,573	(898,717)
Extraordinary contingent income	1,591,264	1,791,830	(200,566)
Other income	1,127,719	906,670	221,049
Total	**63,645,893**	**22,810,933**	**40,834,960**

The item "Grants" refers primarily to:

- contributions from public entities of €2,709,428, primarily related to the research and development bonus pursuant to Article 1, paragraph 35, of Law 190/2014 and the related implementing provisions;
- public grants of €712,978 related to the research and development bonus pursuant to Article 1, paragraph 35, of Law 190/2014 and the related implementing provisions, in addition to the contributions as per Legislative Decree 91/2014 (category "Ateco 28");
- incentive grants for photovoltaic systems of €177,686 governed by the Ministerial Decree of 19/2/2007 (the new Energy Account).

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

"Extraordinary capital gains" refer to the sale of a customer portfolio to Lavazza Deutschland G.m.b.H. The valuation was established with the support of an independent expert.

Costs charged back to subsidiaries of €53,152,287 refer to promotional, transport, administrative and IT services.

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

Euro units	Sales of goods and services	Other income	Total
Direct subsidiaries			
Lavazza Australia Pty Ltd	22,142,350	3,545,213	25,687,563
Lavazza do Brasil Ltda	411,029	77,665	488,694
Lavazza Capital S.r.l.	0	30,521	30,521
Lavazza Coffee (UK) Ltd	38,884,512	7,773,433	46,657,945
Lavazza Deutschland G.m.b.H.	77,857,934	16,119,412	93,977,346
Lavazza France S.a.s.	51,042,765	5,121,111	56,163,876
Lavazza Kaffee G.m.b.H.	8,712,283	1,352,767	10,065,050
Lavazza Nordic AB	4,882,712	1,205,564	6,088,276
Lavazza Premium Coffees Corp.	32,277,757	6,725,341	39,003,098
Lavazza Spagna S.L.	0	18,990	18,990
Coffice S.A.	258,411	48,586	306,997
Merrild Kaffe ApS	31,799,366	1,291,735	33,091,101
Carte Noire S.a.s	151,296,438	10,374,809	161,671,247
Cofincaf S.p.A.	5,621	72,026	77,647
Lea S.r.l.	31,792	28,315	60,107
Indirect subsidiaries			
Fresh & Honest Café Ltd	389,476	183,182	572,658
Carte Noire Operations S.a.s.	0	40,027	40,027
Total	**419,992,446**	**54,008,697**	**474,001,143**

COSTS OF PRODUCTION

RAW MATERIALS, ANCILLARIES, CONSUMABLES AND GOODS

Purchases for the year were broken down as follows:

Euro units	Year 2016	Year 2015	Changes
Raw material	595,168,786	524,567,977	70,600,809
Semi-finished products	2,762,889	2,369,457	393,432
Goods	113,943,601	92,843,886	21,099,715
Miscellaneous ancillary material	34,556,890	28,618,797	5,938,093
Total	**746,432,166**	**648,400,117**	**98,032,049**

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

SERVICE COSTS

The main service costs were as follows:

Euro units	Year 2016	Year 2015	Changes
Commercial costs and sales costs	301,057,155	282,017,412	19,039,743
Ancillary purchasing and production costs	97,117,123	68,838,343	28,278,780
Other lesser items	54,339,443	49,110,809	5,228,634
Total	**452,513,721**	**399,966,564**	**52,547,157**

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

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

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

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

	Total remuneration paid
Directors' fixed remuneration	1,435,250
Auditors' fixed remuneration	167,133
Total	**1,602,383**

USE OF THIRD-PARTY ASSETS

The item is broken down as follows:

Euro units	Year 2016	Year 2015	Changes
Lease of software and electronic equipment	4,691,280	3,225,016	1,466,264
Vehicle leases	3,425,641	3,576,746	(151,105)
Other leases	642,032	811,334	(169,302)
Property leases	1,780,583	1,696,422	84,161
Royalties for use of trademarks	336,685	76,191	260,494
Total	**10,876,221**	**9,385,709**	**1,490,512**

PERSONNEL COSTS

Personnel costs include salaries, social security contributions, employee leaving indemnities and the total cost of temporary employment. Other costs include voluntary contributions for integrating insurance and pension schemes, one-off subsidies and gifts.

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

Categories	Average number 2016	Average number 2015	Headcount at 31/12/2016	Headcount at 31/12/2015
Executives	80	77	84	77
Officers	67	66	65	70
Middle Managers	131	127	138	126
White collars	571	510	531	524
Travelling personnel	170	173	170	173
Blue collars	539	633	545	586
Total	**1,558**	**1,586**	**1,533**	**1,556**

AMORTISATION, DEPRECIATION AND WRITE-DOWNS

The breakdown in the sub-items has already been reported in the income statement; see the relevant section of the balance sheet for comments.

PROVISIONS FOR RISKS AND OTHER PROVISIONS

These refer to the following items:

Euro units	Year 2016	Year 2015	Changes
Provisions for risks:			
Provision for litigation	5,830,170	2,530,753	3,299,417
Provision for restructuring	477,000	1,325,865	(848,865)
Provision for coffee machines warranties and returns	0	0	0
Total provisions for risks	**6,307,170**	**3,856,618**	**2,450,552**
Other provisions:			
Provision for goodwill compensation	0	0	0
Provision for endorsements and guarantees	565,989	345,624	220,365
Provision for agents' customer compensation	308,679	347,548	(38,869)
Total other provisions	**874,668**	**693,172**	**181,496**

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

OTHER OPERATING CHARGES

The following table shows the main components:

Euro units	Year 2016	Year 2015	Changes
Miscellaneous duties and taxes	3,062,981	4,350,701	(1,287,720)
Association duties	674,250	613,107	61,143
Other gifts and advertising material	4,094,328	4,226,499	(132,171)
Capital losses	626,495	359,947	266,548
Social charges	2,646,449	3,064,459	(418,010)
Compensation for damages	5,839,869	2,496,810	3,343,059
Fines and tax pardon	209,541	20,230	189,311
Prior years' costs and extraordinary costs	2,199,557	11,976,491	(9,776,934)
Other	123,308	166,041	(42,733)
Total	**19,476,778**	**27,274,285**	**(7,797,507)**

Capital losses were entirely related to ordinary operations.

The significant increase in "Compensation for damages" was primarily due to the indemnity paid as termination fee to a Greek distributor not covered by the provision for risks.

Production costs pertaining to subsidiaries were as follows:

Euro units	Costs for goods	Costs for services	Use of third-party assets	Total
Direct subsidiaries				
Lavazza Australia Pty Ltd	211,065	1,492,692	0	1,703,757
Lavazza do Brasil Ltda	0	108,754	0	108,754
Lavazza Coffee (UK) Ltd	74,021	877,229	0	951,250
Lavazza Deutschland G.m.b.H.	22,465	0	0	22,465
Lavazza France S.a.s.	1,171,595	1,257,779	0	2,429,374
Lavazza Netherland B.V.	0	374,737	0	374,737
Lavazza Maroc S.a.r.l.	0	59,412	0	59,412
Lavazza Premium Coffees Corp.	734	1,876,244	3,747	1,880,725
Lavazza Spagna S.L.	0	237,754	0	237,754
Lavazza Trading (Shenzhen) Co. Ltd	0	571,022	0	571,022
Merrild Kaffe ApS	0	107,660	0	107,660
Cofincaf S.p.A.	0	217,910	0	217,910
Immobiliare I.N.N.E.T S.r.l	0	0	57,398	57,398
Lea S.r.l.	0	44,489	0	44,489
Indirect subsidiaries				
Carte Noire Operations S.a.s.	0	20,984,411	0	20,984,411
Fresh & Honest Café Ltd	896,198	6,840	0	903,038
Total	**2,376,078**	**28,216,933**	**61,145**	**30,654,156**

FINANCE INCOME AND EXPENSE

FINANCE INCOME

Euro units	Year 2016	Year 2015	Changes
Income from equity investments:			
Dividends from subsidiaries	11,751,346	17,669,760	(5,918,414)
Dividends from other companies	3,041,348	3,386,418	(345,070)
Gain from the disposal of the equity investment in other companies	346,782	822,771,148	(822,424,366)
Total	**15,139,476**	**843,827,326**	**(828,687,850)**

Dividends from subsidiaries consisted of:

• EUR	4,500,000	distributed by Lavazza Deutschland G.m.b.H.
• EUR	4,500,000	distributed by Lavazza France S.a.s.
• EUR	800,000	distributed by Lavazza Kaffee G.m.b.H.
• GBP	1,500,000	distributed by Lavazza Coffee (UK) Ltd

The item “Capital gains” refer to the positive difference between the initially recognised cost and the appraised value of the equity investments contributed to Lavazza Capital S.r.l.

Other finance income was broken down as follows:

Euro units	Year 2016	Year 2015	Changes
Other income:			
Discounts on derivatives	0	945,712	(945,712)
Gains from the disposal of securities	1,970,398	8,608	1,961,790
Total other income	**1,970,398**	**954,320**	**1,016,078**
Interest income:			
On bank deposits	1,267,147	2,971,534	(1,704,387)
On financial receivables from subsidiaries	1,001,847	234,480	767,367
Other	85,261	111,355	(26,094)
Total interest income	**2,354,255**	**3,317,369**	**(963,114)**
Total other finance income	**4,324,653**	**4,271,689**	**52,964**

The item "Gains from the disposal of securities" primarily refers to the positive difference between the initially recognised cost and the appraised value of the investment funds and securities contributed to Lavazza Capital S.r.l.

"Interest income on financial receivables from subsidiaries" refers to the interest accrued at year-end on loans disbursed to the subsidiaries Lavazza Australia Pty Ltd and Carte Noire Operations S.a.s.

FINANCE EXPENSE

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

Euro units	Year 2016	Year 2015	Changes
Interest expense:			
To subsidiaries for centralised current account	0	0	0
To banks	2,720,988	0	2,720,988
To others	128,143	44,489	83,654
Total interest expense	**2,849,131**	**44,489**	**2,804,642**
Premiums on derivatives:			
Premiums on derivatives	54,565	**0**	**54,565**
Total premiums on derivatives	**54,565**	**0**	**54,565**
Expenses and fees:			
To subsidiaries	730,064	828,594	(98,530)
Losses on securities	456,657	72,918	383,739
Total expenses and fees	**1,186,721**	**901,512**	**285,209**
Total interest and finance expense	**4,090,417**	**946,001**	**3,144,416**

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

EXCHANGE GAINS AND LOSSES

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

Euro units	Year 2016	Year 2015	Changes
Unrealised exchange gains	1,667,625	1,522,726	144,899
Realised exchange gains	1,141,755	9,015,858	(7,874,103)
Total exchange gains	**2,809,380**	**10,538,584**	**(7,729,204)**
Unrealised exchange losses	736,057	1,002,999	(266,942)
Realised exchange losses	5,014,460	12,201,045	(7,186,585)
Total exchange losses	**5,750,517**	**13,204,044**	**(7,453,527)**
Net exchange gains (losses)	**(2,941,137)**	**(2,665,460)**	**(275,677)**

ADJUSTMENTS TO FINANCIAL ASSETS

Write-downs refer to:

- in the equity investment in	Lavazza Do Brasil Ltda	Euro	1,603,326
- in the equity investment in	Lavazza Netherlands B.V.	Euro	2,106,401
- in the equity investment in	Coffice S.A.	Euro	400,048
- in the equity investment in	Lea S.r.l.	Euro	286,565
- in the equity investment in	INV. A.G. S.r.l.	Euro	1,466,291

Write-downs are equal to the reduction in investees' assets which are considered as impairments.

The write-up refers to the equity investment in Lavazza Nordic AB and amounted to €205,400.

INCOME TAXES FOR THE YEAR

Current taxes are allocated based on reasonable forecasting of burden, due account being taken of applicable exemptions.

The following table provides a detailed description:

Euro units	
Current taxes for the year	
IRES (corporate income tax)	(3,808,536)
IRAP (regional production tax)	(2,859,388)
Prior years' taxes	35,372,145
	28,704,221
Deferred taxes for the year	
Provision for deferred tax assets	8,019,224
Reversals of deferred tax assets	(9,627,031)
IRES delta on tax assets	(276,841)
	(1,884,648)
Provision for deferred tax liabilities	(169,276)
Reversals of deferred tax liabilities	666,305
IRES delta on tax liabilities	3,655
	500,684
Total taxes	**27,320,257**

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

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:

	Year 2015			Year 2016						
Euro units	%	Balance at year-star	Movements Cash flow hedge reserve 1/1/2016		Reversals		Provisions	Change in IRES rate	Movements Cash flow hedge reserve 2016	Balance at year-end
Nature	**	Tax charge	**Tax charge**	**%**	**Tax charge**	**%**	**Tax charge**	**Tax charge**	**Tax charge**	**Tax charge**
DEFERRED TAX ASSETS										
Deferred deductibility costs	31.4%	4,546,429	0	31.4%	(4,283,258)	27.9%	0	(263,171)	0	0
Deferred deductibility costs	27.9%	6,025,975	0	27.9%	(519,715)	27.9%	3,150,004	233,837	0	8,890,101
Deferred deductibility costs	27.5%	5,382,944	0	27.5%	(3,438,246)	24.0%	0	(1,944,698)	0	0
Deferred deductibility costs	24.0%	4,080,385	0	24.0%	(1,317,062)	24.0%	4,869,220	1,697,191	0	9,329,734
Tax deductibility cash costs	27.5%	68,750	0	27.5%	(68,750)	24.0%	0	0	0	0
Cash flow hedge reserve		0	0		0		0	0	3,334,044	3,334,044
Total deferred tax assets		**20,104,483**	**0**		**(9,627,031)**		**8,019,224**	**(276,841)**	**3,334,044**	**21,553,879**
DEFERRED TAX LIABILITIES										
Accelerated amortisation and depreciation	27.5%	38,436	0	27.5%	(38,436)	24.0%	0	0	0	0
Exchange gains (losses)	27.5%	460,399	0	27.5%	(460,399)	24.0%	169,276	169,275	0	169,275
Merger deficit	31.4%	200,260	0	31.4%	(167,470)	27.9%	0	(32,790)	0	0
Merger deficit	27.9%	1,203,061	0	27.9%	0	27.9%	0	29,135	0	1,232,196
Other	27.9%	0	0	27.9%	0	27.9%	0	0	0	0
Cash flow hedge reserve		0	2,959,800		0		0	0	1,248,959	4,208,759
Total deferred tax liabilities		**1,902,156**	**2,959,800**		**(666,305)**		**169,276**	**(3,655)**	**1,248,959**	**5,610,230**

Deferred tax assets and liabilities at 31 December 2016 reflect, where necessary, the reduction of the IRES (corporate income tax) rate from 27.5% to 24.0% in accordance with Law 208/2015 with effect from 1 January 2017. The reversal of temporary differences in future years was therefore assessed according to the best foreseeable estimates and on a prudential basis.

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

Euro units

IRES (corporate income tax)	**Taxable amount**	**Theoretical tax rate**	**Tax charge**	**Actual tax rate**
Gross profit	60,861,435	*27.50%*	16,736,895	*27.50%*
Higher tax charge	**50,078,373**		**13,771,552**	**22.63%**
of which for:				
non-deductible taxes	2,900,287		797,579	*1.31%*
non-deductible write-downs	5,657,230		1,555,738	*2.56%*
non-deductible depreciation and amortisation	838,041		230,461	*0.38%*
non-deductible provision	30,592,244		8,412,867	*13.82%*
other non-deductible costs	10,090,571		2,774,907	*4.56%*
Lower tax charge	**(96,976,571)**		**(26,668,557)**	**(43.81%)**
of which for:				
costs undeducted in previous years	(250,000)		(68,750)	*(0.11%)*
dividends	(11,718,222)		(3,222,511)	*(5.29%)*
other deductible costs	(31,627,848)		(8,697,658)	*(14.29%)*
trademark amortisation	(7,072,760)		(1,945,009)	*(3.20%)*
gains from tax exemption (PEX scheme)	(2,835,843)		(779,857)	*(1.28%)*
Contribution for economic growth (ACE)	(43,471,898)		(11,954,772)	(19.64%)
Actual IRES charge	**13,963,237**	**27.50%**	**3,839,890**	**6.32%**
Energy savings			(31,354)	
Net IRES			3,808,536	

IRAP (regional production tax)	**Taxable amount**	**Theoretical tax rate**	**Tax charge**	**Actual tax rate**
Value of production (A-B)	192,487,487	*3.96%*	7,616,471	*3.96%*
Higher tax charge	**14,578,362**		**576,847**	**0.30%**
of which for:				
costs for outsourced personnel	2,662,904		105,368	*0.05%*
non-deductible depreciation and amortisation	657,993		26,036	*0.01%*
other non-deductible costs	11,257,465		445,443	*0.24%*
Lower tax charge	**(134,801,872)**		**(5,333,928)**	**(2.77%)**
of which for:				
costs undeducted in previous years	(452,373)		(17,900)	*(0.01%)*
use of funds for deductible risks and charges	(17,882,523)		(707,587)	*(0.19%)*
deductible contributions and costs for personnel	(109,378,104)		(4,327,944)	*(2.22%)*
trademark amortisation	(7,088,872)		(280,497)	*(0.35%)*
Actual IRAP charge	**72,263,977**	**3.96%**	**2,859,390**	**1.49%**

COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

Third-party guarantees in our favour	*€4,882,672*

The item refers to guarantees provided in our favour by banks to the Ministry of Production amounting to €552,171 in respect of prize-related operations; €1,591,997 to the municipalities of Turin and Gattinara for urbanisation work; €1,479,501 to the Italian Revenue Authority for tax auditing; €81,000 to A.E.M. Milano, Idroelettrica S.c.r.l. (Verrès) and Edison Energia S.p.A. (Pozzilli) for energy supplies;

€204,093 to the Region of Piedmont for clearance work and safety assessment associated to the new headquarters; €16,702 to Consorzio Nucleo Sviluppo Industriale Isernia for drinking water supply; €151,650 to Customs; €652,476 related to property leases; €105,000 for works associated with EXPO 2015, other minor amounts relating primarily to payments for the subsidiary Coffice S.A. (€45,500) and to the municipality of Verrès (€2,582) for waste collection.

Guarantees in favour of subsidiaries	*€34,326,064*

The account consists of €12,037,982 in guarantees in favour of Cofincaf S.p.A. to finance contracts with Ho.Re.Ca. customers and €22,288,082 for financing customers' purchases of vending machines for beverages.

Subsidiary for collection of credits	*€33,640,407*

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

Leasing company for maturing fees	*€3,891,984*

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

SUPPLEMENTARY INFORMATION AND STATEMENTS

CONSIDERATION OWED TO THE INDEPENDENT AUDITORS

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

The information required by the above-mentioned regulation are included in the Notes to the Consolidated Financial Statements of the Lavazza Group at 31 December 2016 prepared by the Company.

OFF-BALANCE SHEET ARRANGEMENTS

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

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

POST BALANCE SHEET EVENTS

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

The global growth forecast for 2017 is 3.4%, slightly higher than in 2016. However, the outlook remains uncertain and there are various potential risks that might result in slower global development: the elections in Europe, with the unknowns relating to the risk of populism and anti-European sentiment, the reforms by recently elected President Trump and the Chinese government and the consequences of the OPEC agreement.

Within the Euro Area, low inflation rates are driving the ECB to continue its accommodating policy throughout 2017.

However, in the USA higher average rates than in 2016 are expected: at its last meeting in December, the Federal Reserve outlined plans for three rate increases in 2017.

In early 2017 the exchanges were out of synch, with New York down slightly (second position of 141 cents on 14 March) and London still very high at around 2,150-2,200 dollars.

As the harvest season in Brazil approaches, it is becoming clear that Robusta supply will continue to be limited this season due to drought, resulting in tension on the exchange where this variety is traded.

Arabica production is secure, benefiting from a normal climate.

In early 2017, the euro/dollar exchange rate continued to fluctuate within range, between a low of 1.038 and a high of around 1.077, with an average of approximately 1.06. The interest rate increase by the Federal Reserve and the Dutch elections drove the exchange rate back up to the upper end of the range after downwards pressure on the euro had prevailed at the beginning of the year.

Within this macroeconomic scenario, Luigi Lavazza S.p.A. is establishing a Risk Management Function, in pursuit of more complete and comprehensive management of the main risks to which the Group is exposed (foreign exchange, raw material and credit risk).

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: Corso Novara 59 - 10154 Turin - Italy

167,500,000.= fully paid up

Tax code and Turin Company Register No. 03028560153

Turin Economic and Administrative Index (REA): 910824

ALLOCATION OF THE RESULT FOR THE YEAR

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

Reiterating that legal reserve has reached the limit set forth by Article 2430 of the Italian Civil Code, we recommend that the profit for 2016, which amounted to €88,181,692, be allocated as follows: to the 22,500,002 outstanding shares a dividend of €1.20 per share, totalling €27,000,002.40 overall; to the restricted reserve for exchange gains an amount of €411,840.00; and all the remaining €60,769,849.60 as profit carried forward.

Turin, 27 March 2017

10 Statutory Auditors' Report


LAVAZZA
TORINO, ITALIA, 1895
H DEFENDERS EXHIBITION

Shareholders,

This Report has been approved collegially for filing at the company's office in view of the Shareholders' Meeting called to approve the Financial Statements subject to comment.

The governing body has thus provided access to the following documents approved on 27 March 2017 concerning the year ended on 31 December 2016:

- the draft Financial Statements, including the Notes; and
- the Report on Operations.

The structure of this report differs from that used for the previous year and is inspired by the law and Standard No. 7.1, "Standards of Conduct for Boards of Statutory Auditors – Principles of Conduct of Boards of Statutory Auditors of Unlisted Companies", issued by Italy's National Council of Chartered Accountants and Accounting Experts and in effect since 30 September 2015.

General preliminary remarks

Changes to annual financial reporting rules

The new accounting Directive, 2013/347/EU, transposed into Italian law by Legislative Decree 139/2015, amending the content of Articles 2423 et seq. of the Italian Civil Code, entered into effect on 1 January 2016. The new rules apply to Financial Statements for years beginning on or after 1 January 2016. The company has therefore prepared its 2016 Financial Statements in accordance with the provisions of the above Decree.

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

Given the longstanding knowledge that the Board of Statutory Auditors represents it possesses about the company and:

I) the type of business conducted;

II) the organisational and accounting structure;

in light of the Company's size and concerns, it bears reiterating that the "planning" phase of supervisory activity — during which the inherent risks and critical issues relating to the two above parameters are verified — was implemented by verifying that the information obtained over time was still current.

It was therefore possible to confirm that:

- the Company's core business did not change during the reporting year and is consistent with its Articles of Association;
- the human resources constituting the "workforce" did not change substantially;
- the foregoing is indirectly borne out by a comparison of the figures from the Income Statement for the past two years, i.e., the reporting year (2016) and the previous year (2015). It may also be observed that in 2016 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;
- any complaints received from shareholders pursuant to Article 2408, of the Italian Civil Code.

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

Activities performed

During its periodic controls, the Board of Statutory Auditors obtained information about the course of the Company's business, with a particular focus on problems of a contingent and/or extraordinary nature, so as to identify their impact on the company's operating result for the year and financial structure, in addition to any risks, such as those due to losses on receivables, which are subject to regular monitoring. Discussions were also held with the professionals who provide the Company with tax advice and assistance on specific technical matters, and the results of this process were positive.

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

Relations with the persons operating within the above structure — directors, employees and external consultants — are inspired by mutual collaboration in accordance with the roles assigned to each, having clarified those of the Board of Statutory Auditors.

For the entire year, it was determined that:

- the level of its technical preparation remains adequate to the type of ordinary company events to be recorded and it possesses sufficient knowledge of the company's concerns;
- the external consultants and professionals engaged to provide assistance with tax, corporate and labour law matters have not changed and they thus possess longstanding knowledge of the business conducted and ordinary and extraordinary operating issues that affected the results presented in the Financial Statements.

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

- the decisions made by the shareholders and governing body were compliant with the law and Articles of Association and were not manifestly imprudent or such as to definitively jeopardise the company's financial integrity;
- sufficient information was obtained about the general operating performance and business outlook, and about the most significant transactions undertaken by the company in terms of size or characteristics;
- the transactions undertaken were also compliant with the law and Articles of Association and not in potential conflict with the resolutions passed by the Shareholders' Meeting or such as to definitively jeopardise the company's financial integrity;
- we have no specific remarks concerning the adequacy of the company's organisational structure, the adequacy of its administrative and accounting system or the latter system's reliability in properly representing operating events;
- in the course of our supervisory activity, as described above, we did not bring to light additional material facts that would have required mention in this report;
- we did not have to intervene due to failure to act by the governing body pursuant to Article 2406 of the Italian Civil Code;
- no complaints were received pursuant to Article 2408 of the Italian Civil Code;
- no complaints were filed pursuant to Article 2409, paragraph 7, of the Italian Civil Code;
- the Board of Statutory Auditors did not issue any opinions required by law during the year.

Remarks and proposals concerning the Financial Statements and their approval

The draft Financial Statements for the year ended 31 December 2016 have been approved by the governing body and comprise the Balance Sheet, Income Statement, Cash Flow Statement and the Notes.

In addition:

- the governing body has also prepared the Report on Operations pursuant to Article 2428 of the Italian Civil Code;
- those documents were delivered to the Board of Statutory Auditors in time to be filed at the company's registered office, accompanied by this report, without regard to the limitation established by Article 2429, paragraph 1, of the Italian Civil Code;
- statutory auditing has been entrusted to the auditing firm Reconta Ernst & Young S.p.A., which has drawn up its report pursuant to Article 14 of Legislative Decree 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;
- as mentioned above, 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), applicable as at 31 December 2016. Accordingly, the layouts adopted are consistent with those envisaged in the Italian Civil Code for the Balance Sheet (Article 2424) and the Income Statement (Article 2425), and with the basis of preparation, in light of the application of Legislative Decree 139/2015, envisaged in Article 2423-bis of the Italian Civil Code;

- the 2015 Balance Sheet and Income Statement have been restated, where necessary, to render them comparable with those for 2016;
- the same comparative procedure applied to the preparation, for comparative purposes only, of the 2015 Cash Flow Statement according to the layout indicated in OIC 10 (indirect method).
- 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 complement the tables of the Balance Sheet and Income Statement with the measurement criteria adopted and the other information required by provisions of law, in addition to providing the other information deemed necessary to more thorough understanding of the Financial Statements;
- in addition, pursuant to Article 2426, paragraph 1, point 5, of the Italian Civil Code, the Board of Statutory Auditors also granted its consent to the recognition of amounts allocated to the above item, whereas no start-up and expansion costs were recognised during the year;
- the Report on Operations drafted by the Directors identifies the main events that characterised operations and the result for the year, in addition to providing an analysis of technical investments, financing activity and the other information required by Article 2428 of the Italian Civil Code, including information about transactions with parent companies and related parties, specifying the amount and nature of the relationship, including the specification that they were concluded at normal arm's length conditions;
- information was obtained from the supervisory body and no critical issues were identified regarding the organisational model that would need to be presented in this report;
- the Board of Statutory Auditors has no remarks to make with regard to the governing body's proposed allocation of the net profit for the year presented at the end of the Notes, while noting that the matter falls within the purview of the Shareholders' Meeting.

Results for the year

The profit reported by the governing body for the year ended 31 December 2016, as presented in the Financial Statements, is €88,181,692, compared to €801,605,605 for the previous year.

Conclusions

On the basis of the foregoing, as ascertained by the Board of Statutory Auditors' and in the course of the periodic controls performed, it is our unanimous opinion that there is no impediment to your approval of the draft Financial Statements for the year ended 31 December 2016, as drafted and as submitted to you by the governing body.

Turin, 11 April 2017

THE STATUTORY AUDITORS

(Gianluca FERRERO)

(Angelo GILARDI)

(Lucio PASQUINI)

11

Independent Auditors' Report

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

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

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

Report on the financial statements

We have audited the accompanying financial statements of Luigi Lavazza S.p.A., which comprise the balance sheet as at 31 December 2016, the income statement and the statement of cash flows for the year then ended, and the explanatory notes.

Directors' responsibility for the financial statements

The Directors of Luigi Lavazza S.p.A. are responsible for the preparation of these financial statements that give a true and fair view in accordance with the Italian regulations governing financial statements.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Luigi Lavazza S.p.A. as at 31 December 2016, of its financial performance and cash flows for the year then ended in accordance with the Italian law.

EY S.p.A.
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Report on other legal and regulatory requirements

Opinion on the consistency of the Directors' Single Report on Operations with the financial statements

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by the law, on the consistency of the Directors' Single Report on Operations with the financial statements. The Directors of Luigi Lavazza S.p.A. are responsible for the preparation of the Directors' Single Report on Operations in accordance with the applicable laws and regulations. In our opinion the Directors' Single Report on Operations is consistent with the financial statements of Luigi Lavazza S.p.A. as at 31 December 2016.

Turin, 11 April 2017

EY S.p.A.
Signed by: Stefania Boschetti, partner

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

LUIGI LAVAZZA S.P.A.

Registered and administrative offices:
Via Bologna 32 - 10152 Turin - Italy
Fully paid-up capital €25,000,000
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