

PROSPECTUS



illyNL B.V.

*(a private company with limited liability incorporated under the laws of The Netherlands)
as Issuer*

illycaffè S.p.A.

*(incorporated with limited liability under the laws of the Republic of Italy)
as Guarantor*

\$66,000,000

4.61% Guaranteed Senior Notes due March 29, 2019

The issue price of the \$66,000,000.00 4.61% Guaranteed Senior Notes due March 29, 2019 (the “**Notes**”) issued on 29 March 2012 (the “**Issue Date**”) by illyNL B.V. (the “**Issuer**”) is 100 per cent. of their principal amount. Holders of Notes will have the benefit of an unconditional, absolute and irrevocable guarantee as to payment of all amounts owing in respect of the Notes from illycaffè S.p.A. (the “**Guarantor**” or “**illycaffè**”), as further described in this prospectus (the “**Prospectus**”) under “*Description of the Notes*”. Under certain circumstances, certain of the Guarantor’s subsidiaries may be required to grant a “subsidiary guarantee” (see “*Description of the Notes—Certain Covenants—Addition of Subsidiary Guarantors*”). The Notes will be unrated.

The Notes will bear interest from the Issue Date at the “Applicable Rate” payable annually in arrears on 29 March each year commencing on 29 March 2013. Payments on the Notes will be made in USD. The Notes will mature on 29 March 2019 (see “*Description of the Notes— Principal, Maturity and Interest*”).

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 29 March 2019. The Issuer may, at its option, redeem the Notes in whole or in part (in an amount not less than 10 per cent. of the aggregate principal amount of the Notes then outstanding) at an amount equal to their principal amount plus a “make whole amount”, together with any accrued interest, as described under “*Description of the Notes – Optional Prepayment*”. The Issuer may also redeem all of the Notes at a price equal to their principal amount together with interest accrued thereon plus an amount equal to the “modified make-whole amount”, upon the occurrence of certain changes in applicable laws. If the Guarantor undergoes a change of control or sells certain of its assets, the Guarantor may be required to offer to purchase the Notes (see “*Description of the Notes— Prepayment*”).

Unless otherwise specified in “*Description of the Notes – Tax Indemnification*”, all payments made by the Issuer with respect to the Notes will be made without withholding for taxes, unless withholding of taxes is required by law.

This Prospectus includes information on the terms of the Notes, including, without limitation, redemption and repurchase prices, covenants and transfer restrictions.

The Notes will be held in registered form. The Issuer shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Notes may be transferred or exchanged in denominations of not less than \$500,000. Any such transfer or exchange will be made without charge to the holder, other than any stamp tax or governmental charge imposed in connection with the transfer.

This Prospectus has been approved by the Central Bank of Ireland (the “**Central Bank**”), as competent authority under Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU) (the “**Prospectus Directive**”). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 2004/39/EC or which are to be offered to the public in any member state of the European Economic Area. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market. The admission of the Notes to the regulated market of the Irish Stock Exchange is not an indication of the merits of the Issuer, the Guarantor or the Notes.

The Notes have not been and will not be registered under the U.S. Securities Exchange Act of 1933, as amended (the “**Securities Act**”), and the Notes may not be offered or sold in the United States or to U.S. persons (as defined in Regulation S of the Securities Act) unless so registered, or an exemption from the registration requirements of the Securities Act is available. The Issuer does not intend to register any portion of the offering of the Notes in the United States or to conduct a public offering of the Notes in the United States. The Notes are being offered and sold by the Issuer outside the United States to non-U.S. persons in reliance on Regulation S of the Securities Act, and within the United States in reliance on Section 4(2) of the Securities Act. Any resale of the Notes to any person within the United States or to a U.S. person may be made only in reliance on an exemption from, or a transaction not subject to, the registration requirements of the Securities Act.

Investing in the Notes involves certain risks. For a discussion of these risks, see “*Risk Factors*” beginning on page 4 below.

Placement Agent
BNP PARIBAS
29 March 2012

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IMPORTANT NOTICES

*This Prospectus comprises a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU) (the “**Prospectus Directive**”).*

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Prospectus and, to the best of the knowledge of each of the Issuer and the Guarantor (which have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Issuer, the Guarantor or the Placement Agent.

This Prospectus is to be read in conjunction with any supplements hereto.

Investors should review, inter alia, the most recently available financial statements of the Guarantor when deciding whether or not to purchase any Notes.

Neither the delivery of this Prospectus, nor the offering, sale or delivery of any Notes shall in any circumstances create any implication that, since the date of this Prospectus or the date upon which it has been most recently amended or supplemented, there has not been any change, or any development or event which is materially adverse to the condition (financial or otherwise), prospects, results of operations or general affairs of the Issuer, the Guarantor or the illycaffè Group as a whole.

No representation, warranty or undertaking, express or implied, is made by the Placement Agent as to the accuracy or completeness of this Prospectus or any further information supplied in connection with the Notes or their distribution. The Placement Agent accepts no liability in relation to this Prospectus or the distribution of any such document or with regard to any other information supplied by, or on behalf of, any of the Issuer or the Guarantor. Each investor contemplating purchasing Notes must make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer, the Guarantor and the illycaffè Group as a whole.

Neither this Prospectus nor any other information supplied in connection with the issue of the Notes constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Guarantor or the Placement Agent that any recipient of the Prospectus should subscribe for or purchase any Notes. Each recipient shall be taken to have made its own investigation and appraisal of the financial condition of the Issuer, the Guarantor and the illycaffè Group.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of the Notes may be restricted by law in certain jurisdictions. The offer or sale of Notes as well as the distribution of this Prospectus and any documents related to the Notes may be restricted by law in certain jurisdictions. None of the Issuer, the Guarantor and the Placement Agent represents that this Prospectus and any documents related to the Notes may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by any of the Issuer, the Guarantor and the Placement Agent which would permit a public offering of any Notes or distribution of this Prospectus in any jurisdiction where action for that

purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except in circumstances that will result in compliance with any applicable laws and regulations. Persons who obtain this Prospectus, any documents related to the Notes or any Notes must inform themselves about and observe any such restrictions. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States and the European Economic Area (including the United Kingdom, The Netherlands and the Republic of Italy). For a description of these and certain further restrictions on offers and sales of the Notes and distribution of this Prospectus, see “Subscription and Sale”.

This Prospectus has been prepared for use in connection with the offer and sale of Notes by the Issuer outside the United States to non-U.S. persons (as defined in Regulation S of the Securities Act) in reliance on Regulation S of the Securities Act, and within the United States in reliance on Section 4(2) of the Securities Act. Its use for any other purpose is not authorised. It may not be reproduced, redistributed, published or passed on to any person, directly or indirectly, in whole or in part, for any purpose, other than the prospective investors to whom it is originally provided by the Issuer or the Placement Agent.

Neither the U.S. Securities and Exchange Commission, nor any state securities commission in the United States has approved or disapproved of the Notes or passed upon the adequacy or accuracy of this Prospectus. Any representation to the contrary is a criminal offense in the United States.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Information

The audited consolidated financial statements of illycaffè and its consolidated subsidiaries as of and for the years ended December 31, 2009 and 2010 included in this Prospectus have been prepared in accordance with generally accepted accounting principles as in effect from time to time in Italy (“GAAP”).

Certain numerical figures set out in this Prospectus, including financial data presented in millions or thousands and percentages describing market shares, have been subject to rounding adjustments and, as a result, the totals of the data in this Prospectus may vary slightly from the actual arithmetic totals of such information. Percentages and amounts reflecting changes over time periods relating to financial and other data set forth in “*Description of the Guarantor*” are calculated using the numerical data in our consolidated financial statements or the tabular presentation of other data (subject to rounding) contained in this Prospectus, as applicable, and not using the numerical data in the narrative description thereof.

Currency Presentation

In this Prospectus, all references to “euro,” “EUR” or “€” are to the single currency of the participating member states of the European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time, and all references to “U.S. dollars,” “USD” or “\$” are to the lawful currency of the United States.

Market Share and Other Information

Except where sourced from internal management’s analysis of the consolidated financial statements of illycaffè, information and statistics presented in this Prospectus regarding market volumes and the market share of illycaffè and its market share in comparison to competitors have been extracted from an independent sources. Illycaffè confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by such independent sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Although illycaffè believes that the external source used is reliable, the Issuer has not independently verified the information provided by the source.

RISK FACTORS

Each of the Issuer and the Guarantor believes that the following factors may affect its ability to fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors that are material for the purpose of assessing the market risks associated with the Notes are also described below.

Each of the Issuer and the Guarantor believes that the factors described below represent the principal risks inherent in investing in Notes, but the inability of the Issuer or the Guarantor to pay interest, repay principal or pay other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Issuer and the Guarantor based on information currently available to them or which they may not currently be able to anticipate.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views, based upon their own judgement and upon advice from such financial, legal and tax advisers as they have deemed necessary, prior to making any investment decision.

Words and expressions defined in "Description of the Notes" or elsewhere in this Prospectus have the same meaning in this section.

Prospective investors should read the entire Prospectus.

FACTORS THAT MAY AFFECT THE ISSUER'S AND THE GUARANTOR'S ABILITY TO FULFIL THEIR OBLIGATIONS UNDER THE NOTES

Risks relating to the industries in which the illycaffè Group operates

The illycaffè Group depends on sales of its key product

A very significant proportion of the illycaffè Group's sales (approximately 88 per cent. as at 31 December 2010) is focused on coffee, its key product. Accordingly, any factor adversely affecting the sale of this key product and any related product could have a material adverse effect on the illycaffè Group's results of operations. Production and sale of the blend of coffee, coffee preparation systems, coffee machines and ancillary products could be rendered uneconomical by regulatory or competitive changes; the sale of the key products could also be adversely affected by other factors, including, without limitation, supply, production or distribution interruptions, marketing or pricing actions by one or more of the illycaffè Group's competitors, changes in consumer preferences or other factors (see "*Increased competition or concentration of the illycaffè Group's customer base could lead to increased pricing pressure and declining margins*" and "*Shifts in consumer demand for the illycaffè Group's products could adversely affect its sales*", below).

Volatility in prices of raw materials and commodities costs

The key raw materials and commodities that the illycaffè Group uses in its business could be subject to significant volatility in price and supply, and this could increase its costs.

The illycaffè Group depends upon the availability, quality and cost of raw materials from around the world, which exposes it to price, quality and supply fluctuations, including those occurring because of the impact of agricultural uncertainty, seasonal trends, disease or climate on harvests, changes in global supply and demand or governmental controls. Illycaffè Group also uses significant quantities of steel, plastic, cardboard and others packaging materials to package its products, energy and natural gas for its factories and warehouses, some of which are available only from a limited number of suppliers. This exposes the illycaffè

Group to price fluctuations and supply uncertainties. Underlying base material price changes may result in unexpected increases in raw material and packaging costs, and the illycaffè Group may be unable to fully reflect these increases by raising prices without suffering reduced volume, revenue and operating income. The ability to maintain the profitability of products containing tradable commodities is largely dependent on cost management capacity of both direct and indirect materials including energy as well as market competitiveness. Should the price of commodities decline over a period of time, producers of raw materials may diversify their product range, which may restrict the availability of raw materials. A failure to recover higher costs or shortfalls in availability or quality could materially adversely impact the illycaffè Group's performance.

Shifts in consumer demand for the illycaffè Group's products could adversely affect its sales

Consumer demand for the illycaffè Group's products may be affected by changes to tastes and consumer preferences. Any major change in demographics and/or any failure to anticipate, identify or react successfully or at reasonable cost to these changes could result in reduced demand for illycaffè Group's products and supplies, which would in turn cause the volume, revenue and operating companies income to suffer. If the illycaffè Group does not succeed in offering products that appeal to consumers, its sales and market share will decrease, and its profitability will suffer.

Moreover, there is a risk that the illycaffè Group's business may be adversely affected by a reduction in consumer spending (related to both coffee blend and coffee preparation systems and coffee machines). In particular, in a global credit market scenario such as the current one consumer purchases tend to decline during recessionary periods, when disposable income is lower. Consumers may seek to reduce discretionary spending by foregoing purchases of confectionery products or by shifting away from the illycaffè products to lower-priced products offered by the illycaffè Group's competitors. A decrease in the sale of coffee preparation systems and coffee machines might in turn decrease the overall demand of coffee from retail customers (including families, offices, café, bar and restaurants). Softer consumer demand could reduce the global credit markets Group's sales and profitability. In addition, the disruption in the credit markets could impact the global credit markets Group's ability to manage normal commercial relationships with the Group's customers, suppliers and creditors. If the current economic situation deteriorates significantly, the Group's business could be negatively impacted due to supplier or customer disruptions resulting from tighter credit markets or other economic factors. (see "*Global economic condition – Current disruption in the global credit market*", below).

Increased competition or concentration of the illycaffè Group's customer base could lead to increased pricing pressure and declining margins

The business environment in which the illycaffè Group operates is competitive. Increased competition in the markets in which it operates may materially adversely impact the illycaffè Group's performance and financial condition. Furthermore, there is increasing consolidation among the illycaffè Group's competitors.

Illycaffè competes with other multinational corporations that have significant financial resources to respond to and develop the markets in which both they and illycaffè operate. The illycaffè Group may be unable to compete effectively if its competitors' resources are applied to change areas of focus, enter new markets, reduce prices, or to increase investments in marketing or the development and launch of new products.

The illycaffè Group is also at risk from the trend towards consolidation of the retail trade, which has led to a greater concentration of its customer base and which may result in increased pricing pressure from customers and adversely impact the illycaffè Group's sales and margins. Furthermore, the illycaffè Group competes with other brands for shelf space in retail stores and marketing focus by independent wholesalers. Independent wholesalers and retailers offer other products, sometimes including their own brands, that compete with the illycaffè Group's products. If independent wholesalers and retailers give higher priority to other brands, purchase less of or devote inadequate promotional support to the illycaffè Group's brands, it

could materially and adversely affect the illycaffè Group's sales and reduce the illycaffè Group's competitiveness. For example, due to intense competition, the illycaffè Group may not be able to increase prices of its brands in line with rising production, selling and promotional costs. This could cause the illycaffè sales or margins to decrease in these markets.

Many components of the illycaffè Group's business are dependent upon the performance of other components and, accordingly, could be adversely affected by any failure or the illycaffè Group's underperformance

Many components of the illycaffè Group's business are dependent upon the performance of other components and, accordingly, could be adversely affected by any failure or the group's underperformance.

The illycaffè Group's operations in individual countries are increasingly dependent for the proper functioning of their business on other parts of the illycaffè Group's in terms of raw material and product supply, sales and marketing programme development, technology, funding and support services. Any underperformance or failure to control properly the illycaffè Group's operations in one country could therefore impact the illycaffè Group's businesses in a number of other countries and materially adversely impact the performance or financial condition of other business units or the illycaffè Group's as a whole.

The illycaffè Group's activities outside of the Republic of Italy are subject to various country-specific business and operational risks

Approximately 56 per cent. of the Group's 2010 revenues were generated outside of the Republic of Italy. The illycaffè Group is exposed to risks inherent in a business which operates in many countries. Consistent with its strategic plan, the illycaffè Group may make additional investments in operations outside of the Republic of Italy, including in markets in which it does not currently operate.

The Group's activities outside of Italy are subject to a range of country-specific business risks, including changes to government policies or regulations in the countries in which it operates, changes in the commercial climate, imposition of monetary and other restrictions on the movement of capital for foreign corporations, economic crises, state expropriation of assets, the absence, loss or non-renewal of favourable treaties or similar agreements with foreign tax authorities and political, social and economic instability. The illycaffè Group is subject to government regulation or might be subject to non-governmental actions which may change as a result of political, economic or social events. The effects of such changes are uncertain. In addition, international sales are subject to risks related to imposition of tariffs, quotas, trade barriers and other similar restrictions. If the illycaffè Group is unprepared to handle or could not adequately prepare for any such changes, the illycaffè Group's businesses could suffer. Moreover, terrorist activity, political unrest and other economic or political uncertainties may interrupt or otherwise negatively affect its business. All of these risks could result in increased costs or decreased revenues.

Actions of government entities or the media in countries where the group operates may negatively impact its operations or increase the cost of doing business

The illycaffè Group is at risk from significant and rapid change in the legal systems, regulatory controls, and custom and practices in the countries in which it operates. These affect a wide range of areas including the composition, production, packaging, labelling, distribution and sale of the illycaffè Group's products; the illycaffè Group's property rights; its ability to transfer funds and assets within the illycaffè Group or externally; employment practices; data protection; environment, health and safety issues; and accounting, taxation and stock exchange regulation and involve actions such as product recalls, seizure of products and other sanctions. Accordingly, changes to, or violation of, these systems, controls or practices could increase costs and have material and adverse impacts on the reputation, performance and financial condition of the illycaffè Group. Political developments and changes in society, including increased scrutiny of the illycaffè Group, its businesses or its industry, for example by non-governmental organisations or the media, may

result in, or increase the rate of, material legal and regulatory change, and changes to custom and practices. The illycaffè Group may also be subject to regulation designed to address concerns about dietary trends. This could include the introduction of additional labelling requirements, and levying additional taxes on, or restricting the production or advertising of, certain product types, which could increase the illycaffè Group's costs or make it harder for the illycaffè Group to market its products, adversely affecting the illycaffè Group's performance.

A failure of the illycaffè Group's controls in one or more countries where it operates could adversely impact its results

The illycaffè Group is exposed to control and other risks inherent in a business which operates in many countries. A failure of control in one or more countries may materially adversely affect the performance or financial condition of the illycaffè Group as a whole. Any failure may have a materially adverse impact on the illycaffè Group's performance or financial condition. In this respect it is to be noted that, as at 31 December 2010 only a very small portion (approximately 1 per cent.) of the illycaffè Group's revenues are generated in the emerging markets of the so-called "BRIC" countries (such countries being Brazil, Russia, India and China), which have less developed political, legal and regulatory systems and are at higher risk of failure than those of developed markets.

Damages to brands could affect the illycaffè Group's reputation and profitability

Profitability depends in part upon brands. Reliance on brands makes the illycaffè Group vulnerable to brand damage in a variety of ways. For example, if the illycaffè Group is the victim of product tampering or contamination, brand dilution by people who use any of the illycaffè brands without its permission or other factors, negative publicity will affect sales results. Damage to brands could result in the loss of revenue associated with the affected brands and higher costs to address these circumstances.

Actions of the illycaffè Group partners could impact the reputation of illycaffè or its brands

Actions of third party licensees of brand and product rights (such as franchisees of the *espressamente illy* chain) may adversely impact the reputation of the illycaffè's brands or the illycaffè Group as a whole. The illycaffè Group licenses to third parties certain brand and product rights in specific geographical areas. While such licences are carefully controlled, inappropriate action or an incident at a licensee partner could occur and impact the reputation of the illycaffè's brands or the illycaffè Group as a whole.

The illycaffè Group depends on substantial intellectual property rights and a claim of infringement could require it to expend significant resources and, if successful, could adversely affect its business

The illycaffè Group has substantial intellectual property rights and interests which are important to the illycaffè Group and may require significant resources to protect and defend. The illycaffè Group may also infringe others' intellectual property rights and interests and therefore be required to redesign or cease the development, manufacture, use and sale of its products so that they do not infringe others' intellectual property rights. This may require significant resources or may not be possible. The illycaffè Group may also be required to obtain licences to infringed intellectual property, which may not be available on acceptable terms, or even at all. Intellectual property litigation by or against the illycaffè Group could significantly disrupt its business, divert management's attention, and consume financial resources, and therefore have a materially adverse impact on the reputation, performance and financial condition of the illycaffè Group.

Disruption in manufacturing could affect the illycaffè Group's ability to make and sell products and its profitability

The illycaffè Group's manufacturing facilities could be disrupted for reasons beyond its control. These disruptions may include extremes of natural hazards, fire, supplies of materials or services, system failures, workforce actions or environmental issues. The illycaffè Group's takes measures to limit these risks. However, any significant manufacturing disruptions could adversely affect the illycaffè Group's ability to make and sell products, which could cause the illycaffè Group's revenues to decline.

The illycaffè Group's products could become contaminated, which could be expensive to remedy, cause delays in manufacturing and adversely affect its reputation and financial condition

The illycaffè Group has a comprehensive safety assurance programme and implements an array of preventive measures to ensure the safety of its products. Nevertheless, the risk that raw materials are accidentally or maliciously contaminated, or products are contaminated throughout the supply chain due to human error or equipment failure, cannot be fully excluded. Such incidents can have different consequences including loss of products, delay in supply, loss of market shares, financial costs, adverse health effects on consumers or loss of reputation (see "*Brand Image/Reputation*", above).

Evolution in the legislative and regulatory framework poses a risk to the illycaffè Group

The illycaffè Group's is subject to environmental regimes applying in all countries where it operates, and has to comply with legislation concerning the protection of the environment, including the use of natural resources (e.g. water), release of air emissions and waste water, and the generation, storage, handling, transportation, treatment and disposal of waste materials. In the ordinary course of business, the illycaffè Group's operations are subject to internal environmental policy and management procedures, environmental inspections and monitoring by governmental enforcement authorities. Illycaffè' efforts in developing a responsible supply chain from grower to final product has been recently recognised by independent agencies (see, *inter alia*, "*Description of the Guarantor – Recent Developments*", below). Costs may be incurred, including fines, damages and criminal or civil sanctions, or interruptions may be experienced in operations for actual or alleged violations arising under any environmental laws. Environmental legislation is also increasingly imposing requirements on products and their packaging (e.g. eco-taxes or deposits), which affect their costs.

Further risks relating to the illycaffè Group

The illycaffè Group's business may be affected by the global economic conditions/current disruption in the global credit market

Since the latter part of 2007, disruption in the global credit markets, coupled with the repricing of credit risk, has created increasingly difficult conditions in the financial markets. The global financial system has yet to overcome the disruptions and difficult conditions of recent years. Financial market conditions have remained challenging and in certain respects, such as in relation to sovereign credit risk and fiscal deficits in European countries, have deteriorated in 2010 and 2011. The greatest areas of concerns for the second half of 2011 and the first half of 2012 centre on the United States' debt reduction policy (urged by the major rating agencies) and the capacity of the European Union to deal with the sovereign debt crisis, now reaching core countries and that could undermine the stability of the Euro and the strength of the European banking system. As a result, the country risk premium rose slightly, reflecting the pressure exerted by financial markets on the sovereign debt of the developed economies and concerns about their failure to grow following the global financial crisis. By contrast, the emerging economies are showing the first signs of recovery. Access to credit by Eurozone borrowers has already been significantly and adversely impacted by the financial crisis with credit supply from both banks lenders and the capital markets shrinking and terms becoming more onerous.

Furthermore, in a global credit market scenario such as the current one consumer purchases tend to decline during recessionary periods, when disposable income is lower. Consumers may seek to reduce discretionary

spending by foregoing purchases of confectionery products or by shifting away from the illycaffè products to lower-priced products offered by the illycaffè Group's competitors. Softer consumer demand could reduce the global credit markets Group's sales and profitability. In addition, the disruption in the credit markets could impact the global credit markets Group's ability to manage normal commercial relationships with the Group's customers, suppliers and creditors. If the current economic situation deteriorates significantly, the Group's business could be negatively impacted due to supplier or customer disruptions resulting from tighter credit markets or other economic factors.

There can be no assurances of the success of any of the Group's future attempts to acquire additional businesses or of the Group's ability to integrate any businesses acquired in the future

From time to time, illycaffè evaluates acquisition candidates that would strategically fit its business objectives. Consistent with the illycaffè Group's strategic plan, it may seek opportunities to expand its operations in the future by way of strategic acquisitions, including in markets in which it does not currently operate. Although illycaffè assesses each investment based on financial and market analysis, which include certain assumptions, additional investments could materially adversely affect the illycaffè Group's business, results of operations and financial condition, if: (i) illycaffè incurs substantial costs, delays or other operational or financial problems in acquiring and/or integrating acquired businesses; (ii) illycaffè is not able to identify, acquire or profitably manage such additional businesses; (iii) such acquisitions divert management's attention from the operation of existing businesses; (iv) illycaffè is not able to retain key personnel of acquired businesses; (v) illycaffè encounters unanticipated events, circumstances or legal liabilities; or (vi) illycaffè has difficulties in obtaining the required financing or the required financing may only be available on unfavourable terms.

Additionally, if such acquisitions are consummated, there can be no assurances that the illycaffè will be able to successfully integrate any businesses acquired in the future, due to unforeseen difficulties in operations and insufficient support systems among other things.

The illycaffè Group's operations are conducted in many countries and, as a result, fluctuations between the euro and other major currencies may affect financial results

The illycaffè Group operates in many different country and thus is subject to currency fluctuations, both in term of its trading activities and the translation of its financial statements. While the illycaffè Group reports its financial results in euros, the illycaffè Group's business generates sales and costs of sales throughout the world in a variety of currencies. In 2010, approximately 20 per cent. of the illycaffè Group's consolidated revenues came from outside the European Union and this percentage is expected to increase. Accordingly, fluctuations between exchange rates (in particular, between the euro and the U.S. dollar or Brazilian real) may affect the illycaffè Group's financial results. The exchange rates between some of the foreign currencies in which the illycaffè Group operate and the euro have fluctuated significantly in recent years and may continue to do so in the future. The illycaffè Group seeks to manage its foreign currency exposures with hedging contracts, but may incur losses under those hedges or may not be able to protect itself from the medium or long term effects of exchange rate fluctuations.

The illycaffè Group is exposed to changes in prices for coffee and other commodities

In respect of commodities, illycaffè enters into derivative contracts for coffee other commodities in order to provide a stable cost base for marketing finished products. Such derivative transactions are based on the purchasing budgeted for the following years. The commodities derivative contracts held by illycaffè expose illycaffè to adverse movements in cash flow and gains or losses due to the market risk arising from changes in prices for coffee and other commodities traded on commodity exchanges.

Funding risks

The illycaffè Group's ability to borrow from banks or in the capital markets to meet its financial requirements is dependent on favourable market conditions. If sufficient sources of financing are not available in the future for these or other reasons, the illycaffè Group may be unable to meet its funding requirements, which could materially and adversely affect its results of operations and financial condition. The illycaffè Group's approach toward funding risk is aimed at securing competitive financing and ensuring a balance between average maturity of funding, flexibility and diversification of sources; however, these measures may not be sufficient to fully protect the illycaffè Group from such risk (see "Global economic condition – Current disruption in the global credit market", above).

The illycaffè Group is subject to interest rate risk arising on its financial indebtedness

The illycaffè Group is subject to interest rate risk arising on its financial indebtedness, which varies depending on whether such indebtedness is fixed or floating rate. The risk connected with the fluctuation of interest rates has been reduced by entering into hedging agreements; as at 31 December 2010, approximately 64 per cent. of the illycaffè Group's borrowings is at fixed rate/hedged. There can be no guarantee that the hedging policy adopted by the Group, which is designed to minimize any losses connected to fluctuations in interest rates in the case of floating rate indebtedness by transforming them into fixed rate indebtedness, will actually have the effect of reducing any such losses.

The illycaffè Group is subject to legal proceedings which could adversely affect its consolidated revenues

As part of the ordinary course of business, companies within the illycaffè Group are parties to a number of administrative proceedings and civil actions. As at 31 December 2010, illycaffè had a provision in its consolidated financial statements for legal proceedings which the Guarantor considers to be adequate. Notwithstanding the foregoing, illycaffè believes that none of these proceedings, individually or in the aggregate, will have a material adverse effect on its or its Group business, financial condition or prospects. In addition to provisions in its financial statements in relation to ongoing proceedings, it is possible that in future years illycaffè and the entities of the Group may incur significant losses in connection with pending legal proceedings due to: (i) uncertainty regarding the final outcome of such proceedings; (ii) the occurrence of new developments that were not known to management when evaluating the likely outcome of proceedings; (iii) the emergence of new evidence and information; and (iv) underestimation of probable future losses. To the extent the illycaffè Group is not successful in some or all of these matters, or in future legal challenges (including potential class actions), the illycaffè Group's results of operations or financial condition may be materially adversely affected.

The historical consolidated financial and operating results of illycaffè may not be indicative of future performance

The historical consolidated financial and operational performance of illycaffè may not be indicative of the illycaffè Group's future operating and financial performance. There can be no assurance of the illycaffè's continued profitability in future periods.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH THE NOTES

Risks related to the Notes

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of financial markets; and
- (v) be able to evaluate (either alone or with the assistance of such financial, legal and tax advisers as they have deemed necessary) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Optional Prepayment

As described in further detail below under “*Description of the Notes - Prepayment*”, the Issuer may, at its option, redeem the Notes in whole or in part (in an amount not less than 10 per cent. of the aggregate principal amount of the Notes then outstanding) at an amount equal to their principal amount plus a “make whole amount”, together with any accrued interest. The Issuer may also redeem all of the Notes at a price equal to their principal amount together with interest accrued thereon plus an amount equal to the “modified make-whole amount”, upon the occurrence of certain changes in applicable laws. If the Issuer exercises its option to prepay the Notes in the circumstances mentioned above, the holders of the Notes may not be able to reinvest the redemption proceeds in comparable securities offering a yield as high as that of the Notes.

Inability to raise the funds necessary to finance an offer to prepay the Notes upon the occurrence of certain events constituting a change of control of illycaffè in accordance with the conditions of the Notes

The Note Purchase Agreement contains provisions relating to some events constituting a change of control of illycaffè. If a “Change of Control” (as defined below under “*Description of the Notes*”) of illycaffè occurs, the Issuer will be required to make an offer to prepay all outstanding Notes at a price equal to their principal amount plus any accrued interest thereon and the applicable “Make Whole Amount” (each as defined below under “*Description of the Notes*”), if any. If a Change of Control occurs, the Issuer cannot assure that it will have sufficient funds available at such time to prepay any Notes, or that the restrictions in certain of its credit facilities or other then existing contractual obligations of the Issuer would allow it to make such prepayment. A Change of Control may result in an event of default under, or acceleration of, certain of the Issuer’s credit facilities or other indebtedness that it may incur in the future. If a Change of Control occurs at a time when the Issuer is prohibited from prepaying/purchasing the Notes under other debt agreements, it could seek the consent of its lenders to prepay the Notes or could attempt to refinance those borrowings that contain such prohibition. If the Issuer does not obtain such consent and does not prepay those borrowings, it would remain prohibited from prepaying the Notes. In addition, it expects that it would require third-party financing to make an offer to prepay the Notes upon a change of control of illycaffè. The Issuer cannot assure that it would be able to obtain such financing. Any such failure to prepay any of the tendered Notes would constitute a default under the Note Purchase Agreement, which in turn would likely constitute a default under certain of its other indebtedness. See, “*Description of the Notes — Events of Default*” and “*Description of the Notes — Prepayment Upon Change of Control.*”, below

Amendments and waivers to the Notes

The Note Purchase Agreement contains provisions regarding the amendment and waiver of certain provisions of the Note Purchase Agreement and the Notes that affect the interests of the holders of the Notes generally. These provisions permit defined majorities to bind all the holders of the Notes, including holders who did not vote and holders who voted in a manner contrary to the majority, with respect to certain amendments.

Change of law

The Notes and the Note Purchase Agreement will be construed and enforced in accordance with, and the rights of the parties thereunder will be governed by, the laws of the State of New York. No assurance can be given as to the impact of any possible judicial decision or change to the law of the State of New York or administrative practice after the date of this Prospectus.

Taxation

The tax regime in The Netherlands, in the Republic of Italy and in any other relevant jurisdiction (including, without limitation, the jurisdiction in which each holder of the Note is resident for tax purposes) may be relevant to the acquiring, holding and disposing of Notes and the receiving of payments of interest, principal and/or other income under the Notes. Prospective investors in the Notes should consult their own tax advisers as to which countries' tax laws could be relevant and the consequences of such actions under the tax laws of those countries.

EU Savings Directive

Under EC Council Directive 2003/48/EC of June 3, 2003 on the taxation of savings income (the **EU Savings Directive**), each Member State of the European Union is required to provide to the tax authorities of another Member State details of payments of interest and other similar income (within the meaning of the EU Savings Directive) made by a person within its jurisdiction to an individual resident or certain other limited types of entity established in that other Member State. However, for a transitional period, Austria and Luxembourg are permitted to apply an optional information reporting system, whereby the relevant Member State will levy a withholding tax on payments to such beneficial owner. The withholding tax system applies for a transitional period during which the withholding tax rate has raised, over time, to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-EU countries, including Switzerland and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding). On November 13, 2008, the European Commission published a proposal for amendments to the EU Savings Directive. The proposal included a number of suggested changes which, if implemented, would broaden the scope of the requirements described above. The European Parliament approved an amended version of this proposal on April 24, 2009. Investors who are in any doubt as to their position should consult their professional advisers.

The Notes are not rated

Neither the Notes nor the long-term debt of the Issuer and the Guarantor are rated. To the extent that any credit rating agencies assign credit ratings to the Notes, such ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed under "*Factors that may affect the Issuer's and the Guarantor's ability to fulfil their obligations under the Notes*", above, and other factors that may affect the value of the Notes. A rating or the absence of a rating is not a recommendation to buy, sell or hold securities.

Enforcing rights across multiple jurisdictions may prove difficult for holders of Notes

The Issuer is incorporated under the laws of the Netherlands. The Notes will be guaranteed by the Guarantor organised under the laws of Italy. The rights under the Notes and the Guarantee will thus be subject to the laws of more than one jurisdiction, and there can be no assurance that holders of the Notes will be able to effectively enforce their rights in multiple bankruptcy, insolvency or similar proceedings. Moreover, such multi-jurisdictional proceedings are typically complex and costly for creditors and often result in substantial uncertainty and delay in the enforcement of rights of holders of the Notes. In addition, the bankruptcy, insolvency, administrative and other laws of the various jurisdictions of organization may be materially different from, or in conflict with, each other in certain areas. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdiction's law should apply and could adversely affect the ability to enforce the rights under the Notes and to collect payment in full under the Notes and the Guarantee.

Holders of Notes may have difficulty enforcing their rights against the Issuer and its directors and executive officers

Civil liabilities based on the securities laws of the United States may not be enforceable in the Netherlands, either in an original action or in an action to enforce a judgment obtained in U.S. courts. The United States and The Netherlands currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil and commercial matters. Consequently, a final judgment for payment given by any court in the United States, whether or not predicated solely upon U.S. securities laws, would not be automatically recognized or enforceable in the Netherlands. In order to obtain a judgment which is enforceable in The Netherlands, the claim must be re-litigated before a competent Dutch court. A Dutch court will, under current practice, generally grant the same judgment without a de novo analysis on the merits (i) if that judgment results from legal proceedings compatible with Dutch notions of due process, (ii) if that judgment does not contravene public policy (*openbare orde*) of the Netherlands and (iii) if the jurisdiction of the relevant federal or state court in the United States has been based on internationally accepted principles of private international law. Subject to the foregoing and provided that service of process occurs in accordance with applicable treaties, investors may be able to enforce in The Netherlands, judgments in civil and commercial matters obtained from U.S. federal or state courts. However, no assurance can be given that such judgments will be enforceable. In addition, it is doubtful whether a Dutch court would accept jurisdiction and impose civil liability in an original action commenced in The Netherlands and predicated solely upon U.S. federal securities laws. The Issuer is incorporated in The Netherlands. In addition, as a substantial amount of the Issuer's assets, and a substantial amount of the assets of the Issuer's directors and executive officers are located outside of the United States, any U.S. holders of the Notes may be unable to enforce against them judgments obtained in U.S. courts predicated upon civil liability provisions of the federal securities laws of the United States.

The Notes and the obligations in relation to the issuance of the Notes may be voided, voidable, subordinated, limited in scope, unenforceable or practically unenforceable under Dutch insolvency laws

The Issuer is incorporated under Dutch law. Any insolvency proceedings applicable to the Issuer may be governed by Dutch law. The Issuer may become subject to two types of insolvency proceedings under Dutch law. The first, suspension of payments, is intended to facilitate the reorganization of a debtor's indebtedness, provide the debtor temporary relief against pressing creditors and enable the debtor to continue as a going concern. The second, bankruptcy, is primarily designed to liquidate and distribute the proceeds of the assets of a debtor to its creditors.

During a Dutch suspension of payments proceeding, a debtor loses the right to legally dispose of and administer the property, rights and interests of its estate at its own discretion. As of the date of the commencement of the suspension of payments until the termination of the suspension of payments, an administrator must co-sign all actions with respect to the disposal of or the administration of the property of

the estate. Since the administrator is also not allowed to dispose of or administer the property of the estate or to enter into contracts on behalf of the estate on his own, the debtor and the administrator in fact co-manage the affairs of the debtor. If the Issuer were to be involved in a suspension of payments proceeding, the obligations of the Issuer in connection with the Notes may be difficult to enforce against the Issuer. In practice, a suspension of payments nearly always results in the bankruptcy of the debtor.

During a Dutch bankruptcy, a debtor loses the right to legally dispose of and administer the property, rights and interests of its estate from 00.00 hours on the date of the declaration of bankruptcy. The debtor therefore loses the right to dispose of and administer the bankrupt estate as of 00.00 hours on the date of the declaration of bankruptcy. From that time onwards, only the trustee in bankruptcy of the debtor can validly represent the debtor. Any transactions entered into by the Issuer after 00.00 hours of the date of declaration of bankruptcy, may be annulled by the trustee in bankruptcy. The bankruptcy estate includes all assets of the debtor at the time it is declared bankrupt as well as any assets acquired during the bankruptcy. As a result of the bankruptcy all legal proceedings against the bankrupt are halted and all attachments on the debtor's assets are terminated by operation of law. Further, if a debtor is legally obliged to perform a transaction, the performance of the obligation can be invalidated if the relevant counterparty knew that a request for bankruptcy of the debtor was pending or the performance of the obligation was the result of consultation between the insolvent person and the recipient with a view to give preference to the latter over the other creditors. The performance by the Issuer of its obligations in connection with the Notes may be invalidated if the relevant counterparty of such obligation was aware of a pending bankruptcy of the Issuer at the time the obligation was performed.

Unlike Chapter 11 proceedings under U.S. bankruptcy law where both secured and unsecured creditors are generally barred from seeking to recover their claims, moratorium of payment proceedings allow certain secured creditors and preferential creditors to satisfy their claims by exercising foreclosure rights on the assets which secure their claims or to which they have preferential rights. Therefore, a recovery under Dutch law could involve a sale of the assets of the Issuer in a manner that does not reflect its going concern value. Consequently, Dutch insolvency laws could preclude or inhibit a restructuring of the Issuer.

In Dutch bankruptcy proceedings, the assets of a debtor are generally liquidated and the proceeds distributed to the debtor's creditors on the basis of the relative priority of the claims of those creditors and, to the extent claims of certain creditors have equal priority, in proportion to the amount of such claims. Certain parties, such as secured creditors (including senior lenders as secured creditors under senior credit facilities), will benefit from special rights. Secured creditors such as pledgees and mortgagees may enforce their rights separately from bankruptcy and do not have to contribute to the liquidation costs. However, the enforcement of the security interest might be subject to: (a) a statutory stay of execution of up to two months extendable by another period of up to two months imposed by a Dutch court order pursuant to Sections 63(a) and 241(a) of the Dutch Bankruptcy Act (*Faillissementswet*); (b) a receiver (*curator*) can force a secured party to foreclose its security interest within a reasonable time (as determined by the receiver pursuant to Section 58(1) of the Dutch Bankruptcy Act), failing which the bankruptcy trustee will be entitled to sell the relevant rights or assets and distribute the proceeds to the secured party; and (c) excess proceeds of enforcement must be returned to the company's bankruptcy trustee; they may not be offset against an unsecured claim of the pledgee or the mortgagee against the company. All unsecured, pre-bankruptcy claims are submitted to a receiver for verification, and the receiver makes a determination as to the existence, ranking and value of the claim and whether and to what extent it should be admitted in the bankruptcy proceedings. Creditors that wish to dispute the verification of their claims by the receiver will need to commence a court proceeding in order to establish the amount and rank of the disputed claim. Although no interest is payable in respect of unsecured claims as of the date of a bankruptcy, if the net present value of a claim of a holder needs to be determined, such determination will be made by taking into account the agreed payment date and interest rate.

The obligations in relation to the Notes and the Notes may be voidable under Dutch fraudulent conveyance laws

Dutch law contains specific provisions dealing with fraudulent conveyance both in and outside of bankruptcy, (*actio pauliana* provisions). The *actio pauliana* offers creditors protection against a decrease in their means of recovery. A legal act performed by a person (including, without limitation, an agreement pursuant to which it guarantees the performance of the obligations of a third party and any other legal act having similar effect) can be challenged in or outside bankruptcy of the relevant person and may be nullified by the bankruptcy trustee in a bankruptcy of the relevant person or by any of the creditors of the relevant person outside bankruptcy, if (i) the person performed such acts without an obligation to do so (*onverplicht*), (ii) the creditor concerned or, in the case of the person's bankruptcy, any creditor, was prejudiced in its means of recovery as a consequence of the act, and (iii) at the time the act was or the acts were performed both the person and the counterparty to the transaction knew or should have known that its creditors (existing or future) would be prejudiced in their means of recovery, unless the act was entered into for no consideration (*om niet*) in which case such knowledge of the counterparty is not necessary for a successful challenge on grounds of fraudulent conveyance. Knowledge of prejudice is however presumed by law for all transactions performed within one year of an adjudication of bankruptcy when it can also be established that one of the conditions mentioned in article 43 of the Dutch Bankruptcy Act (*Faillissementswet*) or article 46 of book 3 of the Dutch Civil Code (*Burgerlijk Wetboek*) is fulfilled. These conditions include: (a) transactions in which the debtor received substantially less than the value given by the debtor; (b) payment of, or granting of, security for debts which are not yet due; (c) transactions entered into by the debtor with certain relatives; (d) transactions entered into by the debtor-company with its managing director, a member of the board, certain relatives of these directors or certain shareholders; (e) transactions by the debtor-company with an affiliated legal entity; or (f) transactions by the debtor-company with a subsidiary or affiliate company.

If a Dutch court found that the issuance of the Notes by the Issuer, or any other transaction entered into by the Issuer at any time in connection with the Notes involved a fraudulent conveyance that did not qualify for any defense under Dutch law, then the issuance of the Notes by the Issuer or any other transaction entered into by the Issuer at any time in connection with the Notes, could be nullified. As a result of such a successful challenge, holders of the Notes may not enjoy the benefit of the Notes or any of the other transactions entered into by the Issuer at any time in connection with the Notes. The value of any consideration that holders of the Notes received with respect to the Notes could also be subject to recovery from such holders of the Notes and possibly from subsequent transferees. In addition, under such circumstances, holders of the Notes might be held liable for any damages incurred by prejudiced creditors of the Issuer as a result of the fraudulent conveyance.

It might be difficult fore holders of Notes to enforce their rights against the Issuer due to general defences available to debtors under Dutch law and an appeal by the Issuer on the transgression of its corporate interests

Under Dutch law, receipt of any payment under the Notes may be affected by (a) the standards of reasonableness and fairness (*maatstaven van redelijkheid en billijkheid*); (b) force majeure (*niet-toerekenbare tekortkoming*) and unforeseen circumstances (*onvoorziene omstandigheden*); and (c) the other general defences available to debtors under Dutch law in respect of the validity, binding effect and enforceability of such Notes. Other general defences include claims that the Notes should be avoided because the underlying agreement was entered into through undue influence (*misbruik van omstandigheden*), fraud (*bedrog*), duress (*bedreiging*) or error (*dwaling*).

The validity and enforceability of the Notes, and any other transaction entered into by the Issuer at any time in connection with the Notes may also be successfully contested by the Issuer (or its receiver (*curator*) in bankruptcy) on the basis of the ultra vires provisions of section 2:7 of the Dutch Civil Code (*Burgerlijk Wetboek*). These provisions give legal entities the right to invoke the nullity of a transaction if such

transaction entered into by such entity cannot serve to realise the objects of such entity and the other parties to such transaction knew, or without independent investigation, should have known, that such objects and purposes have been exceeded. In determining whether the granting of the Notes is in furtherance of the objects and purposes of the Issuer, a court will consider (i) the text of the objects clause in the articles of association of such company; (ii) whether the granting of such Notes is in the company's corporate interests (*vennootschappelijk belang*) and to its benefit; and (iii) whether or not the subsistence of such company is jeopardized by the granting of such Notes. The mere fact that a certain legal act (*rechtshandeling*) is explicitly mentioned in a Dutch company's objects clause, may not be conclusive evidence to state that such legal act is not ultra vires. Rather, a transaction must be in the corporate interest of a Dutch company in order to withstand a challenge that it is *ultra vires*.

Risks related to the market generally

Set out below is a brief description of the principal market risks.

There is no active trading market for the Notes

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although applications have been made for the Notes to be admitted to listing on the Official List and trading on the Irish Stock Exchange's regulated market, there is no assurance that an active trading market for the Notes. Furthermore, admission of the Notes to the Official List and trading on the Irish Stock Exchange is not an indication of the merits of the Issuer, the Guarantor or the Notes will develop or, more generally, as to the liquidity of any trading market for the Notes.

The secondary market generally

The Notes may have no established trading market when issued and one may never develop. If a market does develop, it may not be very liquid and, consequently, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes.

The market value of the Notes may also be significantly affected by factors such as variations in the illycaffè Group's annual and interim results of operations, news announcements or changes in general market conditions. In addition, broad market fluctuations and general economic and political conditions may adversely affect the market value of the Notes, regardless of the actual performance of the illycaffè Group.

The Notes are fixed rate securities and are vulnerable to fluctuations in market interest rates

The Notes will carry fixed interest. A holder of a security with a fixed interest rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital market (the "**Market Interest Rate**"). While the nominal interest rate of a security with a fixed interest rate is fixed during the life of such security or during a certain period of time, the Market Interest Rate typically changes on a daily basis. As the Market Interest Rate changes, the price of such security changes in the opposite direction. If the Market Interest Rate increases, the price of such security typically falls, until the yield of such security is approximately equal to the Market Interest Rate. Conversely, if the Market Interest Rate falls, the price of a security with a fixed interest rate typically increases, until the yield of such security is approximately equal to the Market Interest Rate. Investors should be aware that movements of the Market Interest Rate could adversely affect the market price of the Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in US\$. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than US\$. These include the risk that exchange rates may change significantly (including changes due to devaluation of the US\$ or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the US\$ would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

In addition, government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to the purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

DESCRIPTION OF THE NOTES

illyNL B.V., a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated in the Netherlands (the “**Issuer**”), will issue on 29 March 2012 (the “**Issue Date**”) its \$66 million aggregate principal amount of 4.61 per cent. guaranteed senior notes due 29 March, 2019 (the “**Notes**”) under a Note Purchase and Guarantee Agreement (the “**Note Purchase Agreement**”), dated 27 March, 2012, among the Issuer, illycaffè S.p.A. (the “**Company**”) and the purchasers listed in Schedule A thereto. The terms of the Notes will include those stated in the Note Purchase Agreement.

The following description is a summary of the material provisions of the Note Purchase Agreement. It does not restate the Note Purchase Agreement in its entirety. Potential investors in the Notes are urged to read the Note Purchase Agreement because it, and not the following description, defines the rights of the holders of the Notes.

Definitions of certain terms used in this description can be found under “—*Certain Definitions.*” Defined terms used in this description but not defined below under “—*Certain Definitions*” have the meanings ascribed to them in the Note Purchase Agreement.

Brief Description of the Notes and the Note Guarantee

The Notes will be general unsecured obligations of the Issuer and will rank at least *pari passu* with all other unsecured and unsubordinated Indebtedness of the Issuer and the Company. The Notes will be unconditionally and irrevocably guaranteed (the “**Note Guarantee**”) by the Company. Under certain circumstances, certain of the Company’s Subsidiaries may be required to grant a Subsidiary Guarantee. *See also “—Certain Covenants—Addition of Subsidiary Guarantors.”*

Principal, Maturity and Interest

On the Issue Date, the Issuer will issue \$66 million in aggregate principal amount of Notes in this offering, which will mature on 29 March, 2019. The Issuer will issue Notes in denominations of at least \$500,000.

Interest on the Notes will accrue at the Applicable Rate on the outstanding principal amount of the Notes and will be payable annually in arrears on 29 March of each year, commencing on 29 March 2013, subject to such dates being business days for payment in London, New York and Italy and, if not, payments will be made on the next succeeding business day. Interest on overdue principal and interest, including Make-Whole Amounts or Modified Make-Whole Amounts, if any, will accrue at a rate per annum equal to the greater of (i) 1.5 per cent. or (ii) 1.5 per cent. above the rate of interest publicly announced by Bank of America from time to time at its principal office in New York City at its “base” or “prime” rate.

Interest on the Notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Registration, Transfer and Exchange

The Issuer will keep a register at its principal executive office for the registration and registration of transfers of the Notes. The registered holder of a Note will be treated as the owner of such Note for all purposes under the Note Purchase Agreement. Notes may be transferred or exchanged in denominations of not less than \$500,000. The Issuer will not be required to transfer or exchange any Note to a transferee that is a competitor of the Group. Any such transfer or exchange will be made without charge to the holder, other than any stamp tax or governmental charge imposed in connection with the transfer.

Note Guarantee

Pursuant to the Note Guarantee, the Company will unconditionally, absolutely and irrevocably guarantee to each holder of Notes, (i) the punctual payment of all obligations of the Issuer arising under the Note Purchase Agreement and the Notes, and (ii) the punctual and faithful performance, keeping, observance, and fulfillment by the Issuer of all duties, agreements, covenants and obligations of the Issuer contained in the Note Purchase Agreement and the Notes (the “**Guaranteed Obligations**”). The Company will not be liable for any amounts in respect of Guaranteed Obligations in excess of an amount equal to \$90,000,000.

The Note Guarantee will constitute a present absolute, irrevocable and continuing guarantee of payment and not of collection and the Company will guarantee that the Guaranteed Obligations will be paid and performed strictly in accordance with the terms of the Note Purchase Agreement and the Notes, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of any holder of a Note with respect thereto. The obligations of the Company under the Note Guarantee will be independent of the Guaranteed Obligations, and a separate action or actions may be brought and prosecuted against the Company to enforce the Note Guarantee, irrespective of whether any action is brought against the Issuer or any other person liable for the Guaranteed Obligations or whether the Company or any other such person is joined in any such action or actions. *See also “—Certain Covenants—Additional Note Guarantees.”*

Tax Indemnification

All payments made by the Issuer with respect to the Notes will be made without withholding for Taxes, unless withholding of Taxes is required by law. If any withholding for Taxes imposed by any jurisdiction other than the United States (a “**Tax Jurisdiction**”) is required by law, the Issuer will pay additional amounts (“**Additional Amounts**”) necessary so that the net amounts received by each holder after withholding will equal the amounts that would have been received in the absence of the withholding. No Additional Amounts will be payable with respect to (i) any Tax that would not have been imposed but for the existence of any connection between the holder and the Taxing Jurisdiction or (ii) any Tax that would not have been imposed but for the delay or failure by the holder to file forms required to avoid or reduce such Taxes. *See “—Optional Prepayment for Changes in Taxes.”*

Prepayment

Optional Prepayment

The Issuer may at any time prepay all or any part of the Notes, in an amount not less than 10 per cent. of the aggregate principal amount of the Notes then outstanding in the case of a partial prepayment, at 100 per cent. of the principal amount so prepaid, and the Make-Whole Amount determined for the prepayment date with respect to such principal amount. In the case of any partial prepayment of the Notes, the principal amount of the Notes to be prepaid will be allocated among all of the Notes at the time outstanding, so that the same percentage of the outstanding principal amount of each Note is prepaid.

Optional Prepayment for Changes in Taxes

If at any time as a result of an amendment to any law of the Netherlands, Italy or any other jurisdiction that becomes a Taxing Jurisdiction after the date of the original issuance of the Notes, the Issuer is obligated to make payments of any Additional Amounts, the Issuer may give the holders of all affected Notes notice of the prepayment of the affected Notes. Unless the holder of a Note has rejected the prepayment by providing written notice to the Company, the affected Notes will be repaid at 100 per cent. of the principal amount together with interest accrued thereon plus an amount equal to the Modified Make-Whole Amount.

Prepayment Upon Change of Control

Upon the occurrence of a Change of Control, the Issuer will offer to prepay all the Notes. The Issuer will prepay all of the Notes held by holders that accept the prepayment offer at the principal amount of each such

Note, together with interest accrued thereon and the applicable Make-Whole Amount, if any.

Change in OFAC Sanctions Prepayment

If a change in the laws or regulations of OFAC occurs, and as a consequence of the change any holders of Notes would be in violation of the laws or regulations OFAC, the Issuer will make an offer to prepay the entire unpaid principal amount of Notes affected, together with interest thereon, but without payment of any Make-Whole Amount or Modified Make-Whole Amount.

Certain Covenants

Customary Covenants

The Note Purchase Agreement requires that the Company will, and will cause each of its Subsidiaries to:

- (a) comply with all laws and regulations, and obtain and maintain all licenses and permits necessary to the ownership of their properties or to the conduct of their businesses;
- (b) maintain customary insurance with respect to their respective properties and businesses;
- (c) maintain their properties in good repair, working order and condition;
- (d) file all required tax returns and pay all taxes payable; and
- (e) maintain its corporate existence and books and records.

Ranking.

Each of the Issuer and the Company will ensure that its payment obligations under the Note Purchase Agreement (including the Note Guarantee) rank in right of payment at least *pari passu* with all of its other unsecured and unsubordinated present and future Indebtedness and the Issuer will ensure that all of its payment obligations under the Notes rank in right of payment at least *pari passu* with all of its other unsecured and unsubordinated present and future Indebtedness.

Line of Business.

The Company will not and will not permit any of its Subsidiaries to engage in any business if the general nature of the business of the Company and its Subsidiaries, taken as a whole, would be substantially changed from the general nature of the business in which the Company and its Subsidiaries, taken as a whole, were engaged on the date of the Note Purchase Agreement, or businesses reasonably related thereto or in furtherance thereof.

Addition of Subsidiary Guarantors.

Subject to the limitations described below under the heading “—*Limitation on Subsidiary Indebtedness*,” the Company will not permit any Subsidiary to guarantee, or be otherwise obligated, any Indebtedness outstanding under any Principal Credit Facility unless the Subsidiary has entered into a guarantee of the Note Purchase Agreement and the Notes.

Most Favored Lender.

If any Principal Credit Facility contains a Relevant Covenant that is not contained in the Note Purchase Agreement or a Relevant Covenant that is contained in the Note Purchase Agreement which would be more beneficial to the holders of Notes than the Relevant Covenants set forth in the Note Purchase Agreement (a “**More Favorable Covenant**”), the More Favorable Covenant will be deemed automatically incorporated into the Note Purchase Agreement, unless waived in writing by the Majority Holders. “**Relevant Covenant**”

means any covenant that requires the Company to achieve or maintain a stated level of financial condition or performance.

Transactions with Affiliates.

The Company will not and will not permit any Subsidiary to enter into any transaction with any affiliate (other than the Company or another Subsidiary), except pursuant to the reasonable requirements of the Company's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Company or such Subsidiary than would be obtainable in a comparable arm's-length transaction with a person not an affiliate.

Merger, Consolidation, etc.

The Company will not consolidate or merge with any other corporation or transfer all or substantially all of its assets to any person unless: (i) the successor formed by such consolidation or the survivor of such merger or the person that acquires all or substantially all of the assets of the Company is a solvent corporation organized and existing in an Acceptable Jurisdiction, and, if the Company or Issuer is not such corporation, such corporation will (A) assume the performance and observance of each covenant and condition of the Note Purchase Agreement (including the Note Guarantee) and (B) provide to each holder of the Notes an opinion of independent counsel confirming that the assumption is enforceable; and (ii) immediately after giving effect to the transaction, no Default or Event of Default has occurred and be continuing and, if applicable, the Issuer has complied with the provisions described above under the heading "*—Prepayment Upon Change of Control.*"

Limitation on Liens.

The Company will not, and will not permit any Subsidiary to, incur or assume any Lien on any property or asset of the Company or any Subsidiary, unless the Notes will be equally and ratably secured with all other obligations thereby secured, except:

- (a) Liens existing on the date of the Note Purchase Agreement;
- (b) Liens for taxes or other governmental charges either not yet due and payable or to the extent that nonpayment is permitted by the terms of the Note Purchase Agreement;
- (c) Liens incurred in the ordinary course of business for sums not yet due and not securing Indebtedness for borrowed money;
- (d) Liens in respect of judgments or awards to the extent that such judgments or awards are being contested in good faith by appropriate proceedings and with respect to which adequate reserves have been established on the books of the Company and its Subsidiaries in accordance with GAAP, unless such judgment has not been discharged or stayed pending appeal within 90 days;
- (e) Liens on property or assets of the Company or any of its Subsidiaries securing Indebtedness owing to the Company or to a Substantially-Owned Subsidiary;
- (f) any Lien created to secure all or any part of the purchase price or cost of construction, of property acquired or constructed by the Company or a Subsidiary after the date of the Note Purchase Agreement, provided that (i) the Lien extends solely to the property acquired or constructed, (ii) the principal amount of Indebtedness secured by the Lien does not exceed the lesser of the cost of the property and the fair market value of the property at the time of such acquisition or construction, and (iii) the Lien is created contemporaneously with, or within 180 days after, the acquisition or construction of the property;

- (g) any Lien existing on property of a person immediately prior to its being consolidated with or merged into the Company or a Subsidiary or its becoming a Subsidiary, or any Lien existing on any property acquired by the Company or any Subsidiary at the time such property is acquired, provided that (i) the Lien was not created or assumed in contemplation of such consolidation or merger or such person's becoming a Subsidiary or such acquisition of property and (ii) the Lien extends solely to the property acquired; and
- (h) Liens not otherwise permitted by foregoing paragraphs (a) through (g), provided that (x) the aggregate principal amount of all Indebtedness secured by Liens permitted under this paragraph (h) plus (y) the aggregate principal amount of Indebtedness incurred pursuant to paragraph (e) of under the heading "*—Limitation on Subsidiary Indebtedness*" below does not at any time exceed an amount equal to 10 per cent. of Consolidated Total Assets. In addition, Liens under this paragraph may not secure any Principal Credit Facility.

Limitation on Subsidiary Indebtedness.

The Company will not permit any Subsidiary (other than the Issuer) to create, assume, incur, guarantee or otherwise become liable in respect of any Indebtedness except:

- (a) Indebtedness of any Subsidiary that has granted a guarantee of the Notes and the Note Purchase Agreement as described above under the heading "*—Addition of Subsidiary Guarantors*";
- (b) Indebtedness of a Subsidiary outstanding on the date of the Note Purchase Agreement and any extension, renewal or refunding thereof, provided that the principal amount thereof outstanding after giving effect to such extension, renewal or refunding does not exceed the principal amount of such Indebtedness outstanding on the date of the Note Purchase Agreement;
- (c) Indebtedness owing to the Company or to any Wholly-Owned Subsidiary;
- (d) Indebtedness of a Subsidiary outstanding at the time such Subsidiary becomes a Subsidiary and any extension, renewal or refunding of such Indebtedness, provided that (i) the Indebtedness has not been incurred in contemplation of such Subsidiary becoming a Subsidiary and (ii) the principal amount thereof outstanding immediately after giving effect to any extension, renewal or refunding does not exceed the principal amount of such Indebtedness outstanding at the time such Subsidiary became a Subsidiary; and
- (e) Indebtedness of Subsidiaries not otherwise permitted by foregoing paragraphs (a) through (d), provided that (i) the aggregate principal amount of all Indebtedness of Subsidiaries permitted under this clause (e) *plus* (ii) the aggregate principal amount of all Indebtedness secured by Liens permitted under paragraph (h) of "*—Limitation on Liens*" does not at any time exceed an amount equal to 10 per cent. of Consolidated Total Assets.

Net Worth Ratio.

The Company will not permit the ratio of Consolidated Net Financial Debt to Consolidated Equity (in each case, determined as of each Determination Date) to be greater than 1.7 to 1.0.

Maximum Leverage Ratio.

The Company will not permit the ratio of Consolidated Net Financial Debt (determined as of each Determination Date) to Consolidated EBITDA for the twelve-month period ending on such Determination Date to be greater than 4.0 to 1.0.

Limitation on Sale of Assets.

The Company will not, and will not permit any Subsidiary to, sell, lease, transfer or otherwise dispose of property, receivables or assets, including any shares, interests or other equivalents of corporate stock of any Subsidiary, other than:

- (a) transfers of assets to the Company or a Wholly-Owned Subsidiary;
- (b) sales in the ordinary course of business of inventory held for sale or equipment, fixtures, supplies or materials no longer required in the operation of the business of the Company or any of its Subsidiaries or that are obsolete;
- (c) receivables financings (without recourse) by the Company or any Subsidiary that do not exceed 15 per cent. of Consolidated Turnover; or
- (d) other sales so long as the aggregate net book value of property or assets disposed of in such sales does not exceed 10 per cent. of Consolidated Total Assets for any fiscal year; except that for purposes of calculating the aggregate net book value of property or assets disposed of during any fiscal year any sale will be excluded if an amount equal to the proceeds of the sale:
 - (i) are used to acquire productive assets; or
 - (ii) are used to reduce Indebtedness of the Company or its Subsidiaries (or in the case of the Notes, offer to prepay and, if such offer is accepted, prepay the Notes as provided below), provided, (A) that the Indebtedness is not subordinated in right of payment to the Notes and (B) the Company applies at least a pro rata portion of such proceeds to the prepayment (or offer of prepayment) of the Notes.

No Dividends while Event of Default is Continuing

The Company will not pay or declare any Restricted Payment if, at the time of declaration or payment thereof, an Event of Default has occurred and is continuing or would result from such payment.

Terrorism Sanctions Regulations

The Company will not and will not permit any affiliated entity to (a) become a Blocked Person or (b) have any investment in, or engage in any dealings or transactions with, any Blocked Person where such investment, dealings or transactions would result in the Company or an affiliated entity being in violation of any applicable law, except to the extent it would not have a material adverse effect, or cause any holder of Notes to be in violation of any laws or regulations administered or enforced by the OFAC.

Reports

The Issuer will provide each holder of Notes with:

- (a) copies of the Group's unaudited semi-annual financial statements and audited annual financial statements;
- (b) copies of each (i) financial statement, report, circular, notice or proxy statement or similar document sent by the Company or any Subsidiary to its principal lending banks as a whole or to its public securities holders generally, and (ii) each regular or periodic report, registration statement, and prospectus filed by the Company or any Subsidiary with the Irish Stock Exchange, Consob or any similar Governmental Authority or securities exchange and of all press releases and other statements made available generally by the Company or any Subsidiary to the public concerning material developments;
- (c) notice of any Default or Event of Default;

- (d) notice of the occurrence of certain events in connection with ERISA; and
- (e) copies of any notice to the Company or any Subsidiary from any Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a material adverse effect.

Events of Default

An “**Event of Default**” will exist if any of the following conditions or events occurs and is continuing:

- (a) the Issuer defaults in the payment of principal, Make-Whole Amount or Modified Make-Whole Amount on any Note;
- (b) the Issuer defaults in the payment of any interest on any Note or any Additional Amount payable;
- (c) the Issuer or the Company defaults in the performance of or compliance with any term contained described above under the headings “—*Net Worth Ratio*” or “—*Maximum Leverage Ratio*,”
- (d) the Issuer or the Company defaults in the performance of or compliance with any term of the Note Purchase Agreement (other than those referred to in paragraphs (a), (b) and (c) above) and such default is not remedied within 30 days;
- (e) any representation or warranty made in writing by the Issuer or the Company in the Note Purchase Agreement or furnished in connection with the transactions contemplated by the Note Purchase Agreement proves to have been false or incorrect in any material respect on the date as of which made;
- (f) (i) the Issuer, the Company or any Subsidiary is in default in the payment of any principal of or premium or make-whole amount or interest on any Indebtedness that is outstanding in an aggregate principal amount of at least €15,000,000, (ii) the Issuer, the Company or any Subsidiary is in default in the performance of or compliance with any term of any evidence of any Indebtedness in an aggregate outstanding principal amount of at least €15,000,000, and as a consequence of such default such Indebtedness has become, or has been declared, due and payable before its stated maturity or before its regularly scheduled dates of payment, or (iii) as a consequence of the occurrence or continuation of any event or condition (other than the passage of time, as a result of a Change of Control, an event that makes it unlawful for a lender to perform any of its obligations in connection with the applicable Indebtedness, or the right of the holder of Indebtedness to convert such Indebtedness into equity interests), the Issuer, the Company or any Subsidiary has become obligated to purchase or repay Indebtedness before its regular maturity or before its regularly scheduled dates of payment in an aggregate outstanding principal amount of at least €15,000,000;
- (g) the Issuer, the Company or any Material Subsidiary (i) is generally not paying its debts as they become due, (ii) files a petition for relief or reorganization or arrangement or any other petition in insolvency or bankruptcy, for liquidation or winding-up, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, or trustee with respect to it or any substantial part of its property, or (v) is adjudicated as insolvent or to be liquidated or wound-up;
- (h) a court or Governmental Authority of competent jurisdiction enters an order appointing, without consent by the Issuer, the Company or any of its Material Subsidiaries, a custodian, receiver, administrator, administrative receiver, or trustee with respect to it or any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in insolvency or bankruptcy or for liquidation or winding-up of the Issuer, the Company or any of its Material Subsidiaries;

- (i) a final judgment or judgments for the payment of money aggregating in excess of €15,000,000 are rendered against one or more of the Issuer, the Company and its Material Subsidiaries and which judgments are not, within 60 days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 60 days after the expiration of such stay; or
- (j) a default under the Note Guarantee, or the Note Guarantee is not effective or ceases to be effective or the Company or the Issuer claims that the Note Guarantee is no longer effective; or
- (k) certain events in connection with ERISA.

Remedies on Default

Acceleration.

- (a) If an Event of Default with respect to the Issuer or the Company described in paragraph (g) or (h) under the heading “—*Events of Default*” above (other than an Event of Default described in clause (i) of paragraph (g) or described in clause (vi) of paragraph (g) by virtue of the fact that such clause encompasses clause (i) of paragraph (g)) has occurred, all the Notes then outstanding will automatically become immediately due and payable.
- (b) If any other Event of Default has occurred and is continuing, the Majority Holders may at any time at its or their option, by notice or notices to the Issuer, declare all the Notes then outstanding to be immediately due and payable.
- (c) If any Event of Default described in paragraph (a) or (b) under the heading “—*Events of Default*” has occurred and is continuing, any holder or holders of Notes at the time outstanding affected by such Event of Default may at any time, at its or their option, by notice or notices to the Issuer, declare all the Notes held by it or them to be immediately due and payable.

Upon any Notes becoming due and payable under paragraphs (a) through (c) above, the entire unpaid principal amount of such Notes, plus (x) all accrued and unpaid interest thereon and (y) the Make-Whole Amount determined in respect of such principal amount, will all be immediately due and payable.

Other Remedies.

If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under “—*Acceleration*,” the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

Amendment and Waiver

The Note Purchase Agreement and the Notes may be amended, and any term of the Note Purchase Agreement or of the Notes may be waived, with the written consent of the Company and the Majority Holders, except that:

- (a) no amendment or waiver of the provisions regarding authorization of the Notes, sale and purchase of the Notes, the closing, conditions to closing, representations and warranties, or substitution and transfer of the Notes will be effective as to a holder of Notes unless consented to by that holder of Notes in writing; and
- (b) no amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) (subject to the provisions relating to acceleration), change the

amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest or of the Make-Whole Amount or Modified Make-Whole Amount on, the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, or (iii) amend the provisions related to payment and prepayment of the Notes, events of default, remedies on default, tax indemnification, the Note Guarantee, amendment and waiver or confidential information.

Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding consented to any amendment or waiver, Notes directly or indirectly owned by the Issuer, the Company or any of their affiliates will be deemed not to be outstanding.

Currency Rate Indemnity

Any payment an amount that is payable under the Note Purchase Agreement or the Notes in U.S. Dollars, which is made to any holder of a Note in the lawful currency of any other jurisdiction (the “**Other Currency**”) as a result of any judgment or order or the realization of any security or the liquidation of the Issuer and/or the Company, will constitute a discharge of the Issuer’s or the Company’s obligations under the Note Purchase Agreement and the Notes only to the extent of the amount of U.S. dollars which the holder could purchase in the New York foreign exchange markets with the amount of Other Currency in accordance with normal banking procedures at the rate of exchange prevailing on the first day on which banks in New York are generally open for business following receipt of the payment first referred to above. If the amount of U.S. Dollars that could be so purchased is less than the amount of U.S. dollars originally due to such holder, the Issuer and the Company will jointly and severally indemnify the holder against all loss or damage arising out the deficiency.

Governing Law

The Note Purchase Agreement will be construed and enforced in accordance with, and the rights of the parties will be governed by, the laws of the State of New York.

Certain Definitions

Set forth below are certain defined terms used in the Note Purchase Agreement. Reference is made to the Note Purchase Agreement for a full disclosure of all defined terms used therein, as well as any other capitalized terms used herein for which no definition is provided.

“**Acceptable Jurisdiction**” means any of the United States, Canada, Switzerland and any country which was a member of the European Union (other than Portugal, Greece and Spain) as of April 30, 2004.

“**Applicable Margin**” means 0.50 per cent. (50 basis points) in the case of a computation of the Make-Whole Amount and 1.00 per cent. (100 basis points) in the case of a computation of the Modified Make-Whole Amount.

“**Applicable Rate**” means with respect to any Note (a) 5.11 per cent. per annum on any interest payment date following the date of delivery of a compliance certificate indicating that the Maximum Leverage Ratio as calculated on the most recent Determination Date was greater than 3.0 to 1.0 but equal to or less than 3.5 to 1.0, (b) 5.61 per cent. per annum on any interest payment date following the date of delivery of a compliance certificate indicating that the Maximum Leverage Ratio as calculated on the most recent Determination Date was greater than 3.5 to 1.0 but equal to or less than 4.0 to 1.0 and (c) at all other times, 4.61 per cent. per annum.

“**Blocked Person**” means a department, agency or instrumentality of, or is otherwise controlled by or acting on behalf of, directly or indirectly, (a) any OFAC Listed Person or (b) any Person, entity, organization, foreign government or regime that is subject to any economic or trade sanction that OFAC is responsible for

administering and enforcing currently Iran, Sudan, Cuba, Burma, Syria and North Korea.

“Called Principal” means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to an optional prepayment, an optional prepayment for taxes, a prepayment upon Change of Control, a change in OFAC sanctions prepayment or has become or is declared to be immediately due and payable pursuant to acceleration provision, as the context requires.

“Change of Control” means any event or circumstance in which any Person or Persons (other than the Illy Family), owns or controls more than one-half of the number of votes that might be cast at a general meeting of the Company.

“Consob” means the Commissione Nazionale per le Società e la Borsa, the Italian securities and exchange commission.

“Consolidated Balance Sheet” means in relation to the Group and as of the date of calculation, the balance sheet schedule of the Group as set out in the financial statements prepared in accordance with GAAP as applied in the Original Group Accounts.

“Consolidated EBITDA” means, with respect to the Group and for the period of the four financial quarters ending on the relevant Determination Date, the “value of production” item in the Consolidated Income Statement of the Group minus the sum of “cost of production” items (including raw materials, consumables and goods, services, leasing and rental expenses, personnel, change in raw materials, consumables, and goods, and other operating expenses, to the extent such items were included in the calculation of “cost of production”) all as set forth in the Company’s most recent annual audited Consolidated Income Statement or semi-annual unaudited Consolidated Income Statement.

“Consolidated Equity” means, in relation to the Group and at any Determination Date, the sum of (i) the amount of the item “total consolidated shareholders’ equity” (including minority interests) minus (ii) “subscribed capital unpaid” and (iii) treasury shares, all as set forth in the Company’s most recent annual audited Consolidated Balance Sheet or semi-annual unaudited Consolidated Balance Sheet.

“Consolidated Income Statement” means, in relation to the Group and at any Determination Date, the income statement schedule of the Group as set out in the financial statements prepared in accordance with GAAP as applied in the Original Group Accounts.

“Consolidated Net Financial Debt” means, at any Determination Date and without double-counting, the sum of any amounts listed in the items “bonds,” “convertible bonds,” “amounts due to shareholders for loans,” “amounts due to banks,” “amounts due to other financial institutions,” “amounts due to subsidiaries,” “amounts due to associates,” “amounts due to parent companies,” and “other payables,” each limited to financial debt, of the Group determined on a consolidated basis, less the amount of any amounts listed in the items “other securities,” “bank and postal deposits,” “cheques,” and “cash in hand” in the Group’s most recent annual audited Consolidated Balance Sheet or semi-annual unaudited Consolidated Balance Sheet.

“Consolidated Total Assets” means, at any time, the consolidated total assets of the Group at such time as reported in the Group’s consolidated financial statements.

“Consolidated Turnover” means, with reference to any period, the turnover of the Group for such period, as disclosed in the consolidated financial statements of the Group most recently prepared before the time when the determination thereof is being made as required by and in accordance with the terms hereof.

“Controlled Affiliate” means any affiliate of the Company or any of its Subsidiaries in respect of which the Company or such Subsidiary possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such affiliate, whether through the ownership of voting securities, by contract or otherwise.

“Default” means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

“Determination Date” means any Year-End Determination Date or Half-Year Determination Date.

“Discounted Value” means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

“ERISA” means the U.S. Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

“GAAP” means generally accepted accounting principles (including International Financial Reporting Standards, as applicable) as in effect from time to time in Italy, as applied by the Group.

“Governmental Authority” means the government of the United States of America or any State or other political subdivision thereof, Italy or any political subdivision thereof, the Netherlands or any political subdivision thereof, or any other jurisdiction in which the Company or any Subsidiary conducts all or any part of its business or which asserts jurisdiction over any properties of the Company or any Subsidiary, or any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

“Group” means, at any time, the Company and the Subsidiaries of the Company included in the Company’s consolidated financials at such time.

“Half-Year Determination Date” means, for so long as the Company’s financial year ends on December 31, June 30th of each calendar year, and in the event that the Company changes its financial year, the day which is six months from the last day of the Company’s financial year.

“Indebtedness” with respect to any Person means, at any time, without duplication,

- (a) its liabilities for borrowed money and its redemption obligations in respect of mandatorily redeemable preferred stock to the extent such mandatory redemption payments fall due prior to the final maturity of the Notes;
- (b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including all such liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);
- (c) all liabilities appearing on its balance sheet in accordance with GAAP as applied in the Original Group Accounts in respect of capital leases;
- (d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person;
- (e) all its liabilities in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions (whether or not representing obligations for borrowed money), excluding letters of credit and stand-by letters of credit issued on behalf of or in the interest of the Company, as applicant, in connection with its purchases of coffee where the commitment to pay under the letter of credit is subject to fulfillment by the supplier of certain conditions;
- (f) the aggregate Swap Termination Value of all Swap Contracts of such Person; and

- (g) any guaranty of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof;

provided, Indebtedness shall not include the Swap Termination Value of any Swap Contracts for hedging interest rate, commodity or currency exposure arising in the ordinary course of business of a Group member for non-speculative purposes in accordance with GAAP.

Indebtedness of any Person shall include all obligations of such Person of the character described in clauses (a) through (g) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

“Issue Date” means 29 March 2012.

“Lien” means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale, hire purchase or other title retention agreement or capital lease, upon or with respect to any property or asset of such Person (including, in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

“Make-Whole Amount” or **“Modified Make-Whole Amount”** means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal, provided that neither the Make-Whole Amount nor the Modified Make-Whole Amount may in any event be less than zero.

“Material Subsidiary” means any Subsidiary that has contributed more than 7.5 per cent. of the Consolidated Total Assets or 7.5 per cent. of Consolidated EBITDA, calculated by reference to the most recent audited consolidated financial statements of the Company and its Subsidiaries and consolidated in the case of a Subsidiary that has Subsidiaries.

“OFAC” means the Office of Foreign Assets Control, U.S. Department of Treasury.

“OFAC Listed Person” means a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the OFAC.

“Original Group Accounts” means the audited consolidated financial statements of the Company and its Subsidiaries as at and for the year ended December 30, 2010.

“Person” means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof.

“Principal Credit Facility” means any bank facility to which the Company or any Substantially-Owned Subsidiary (excluding any Subsidiary organized in a jurisdiction in which it is required to borrow as a result of exchange control or monetary restriction regulations) is a party with a committed or outstanding principal amount in excess of €15 million.

“Reinvestment Yield” means, with respect to the Called Principal of any Note, the sum of the Applicable Margin plus the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as “Page PX1” on the Bloomberg Financial Market Service (or such other display as may replace Page PX1 on the Bloomberg Financial Market Service) for the most recently issued actively traded on the run U.S. Treasury securities having a maturity equal to the Remaining Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including, by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day

preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Life of such Called Principal as of such Settlement Date (such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the actively traded U.S. Treasury security with the maturity closest to and greater than the Remaining Life and (2) the actively traded U.S. Treasury security with the maturity closest to and less than the Remaining Life). The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Note.

“Remaining Life” means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

“Remaining Scheduled Payments” means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date.

“Restricted Payment” means any (a) dividend or other distribution (whether in cash, securities or other property) with respect to any capital stock or other equity interest of the Company or any Subsidiary, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such capital stock or other equity interest or on account of any return of capital to the Company’s stockholders, partners or members (or the equivalent Person thereof), or (b) any payment on subordinated Indebtedness to the Company’s stockholders, partners or members (or the equivalent Person thereof).

“Settlement Date” means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to an optional prepayment, an optional prepayment for taxes, a prepayment upon Change of Control or has become or is declared to be immediately due and payable pursuant to acceleration provision, as the context requires.

“Subsidiary” means, in respect of any Person (the **“first Person”**) at any particular time, any other Person (the **“second Person”**):

- (a) whose majority of votes in ordinary shareholders’ meetings of the second Person is held by the first Person; or
- (b) in which the first Person holds a sufficient number of votes giving the first Person a dominant influence in ordinary shareholders’ meetings of the second Person,

pursuant to the provisions of Article 2359, paragraph 1, numbers 1) and 2) of the Italian Civil Code.

“Substantially-Owned Subsidiary” means, at any time, any Subsidiary of which the Company owns directly or indirectly not less than 75 per cent. of the share capital and voting rights.

“Swap Contract” means (a) any and all interest rate swap transactions, basis swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward foreign exchange transactions, cap transactions, floor transactions, currency options, spot contracts or any other similar transactions or any of the foregoing (including, without

limitation, any options to enter into any of the foregoing), and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc. or any International Foreign Exchange Master Agreement.

“Swap Termination Value” means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a), the mark-to-market values(s) for such Swap Contracts, as determined in accordance with the relevant provisions of such Swap Contracts.

“Wholly-Owned Subsidiary” means, at any time, any Subsidiary of which the Company owns directly not less than 100 per cent. of the share capital and voting rights.

“Year-End Determination Date” means, for so long as the Company’s financial year ends on December 31, December 31st of each calendar year, and in the event that the Company changes its financial year, the last day of the Company’s financial year.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN REGISTERED FORM

FORM OF THE NOTES

The Notes will be certificated and will be issued in denominations of at least \$500,000.

REGISTRATION, EXCHANGE, SUBSTITUTION OF NOTES

Registration of Notes

The Issuer shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes of the Note Purchase and Guarantee Agreement, and the Issuer shall not be affected by any notice or knowledge to the contrary. The Issuer shall give to any holder of a Note promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

Transfer and Exchange of Notes

Upon surrender of any Note at the principal executive office of the Issuer for registration of transfer or exchange (and in the case of a surrender for registration of transfer, duly endorsed or accompanied by a written instrument of transfer duly executed by the registered holder of such Note or such holder's attorney duly authorized in writing and accompanied by the address for notices of each transferee of such Note or part thereof), within 10 Business Days thereafter the Issuer shall execute and deliver, at the Issuer's expense (except as provided below), one or more new Notes (as requested by the holder thereof) in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note; provided, however, that the Issuer shall not be required to execute any new Note, or register the transfer of any Note, to a transferee who is a competitor of the illycaffè Group. Each such new Note shall be payable to such Person as such holder may request and shall be substantially in the form of Notes set forth in Exhibit 1 to the Note Purchase and Guarantee Agreement. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Issuer may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than \$500,000, provided that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than \$500,000. Any transferee, by its acceptance of a Note registered in its name, will be deemed to have agreed to certain representations set forth in the Note Purchase and Guarantee Agreement.

Replacement of Notes

Upon receipt by the Issuer of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor (as defined in the Note Purchase and Guarantee Agreement), notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

- (a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that if the holder of such Note is, or is a nominee for, an original purchaser or a Note or another holder of a Note with a minimum net worth of at least \$50,000,000 or a qualified institutional buyer, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or
- (b) in the case of mutilation, upon surrender and cancellation thereof,

within 10 business days thereafter the Issuer at its own expense shall execute and deliver, in lieu thereof, a new Note, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

PAYMENTS ON NOTES

Place of Payment

Subject to section “Home Office Payment” below, payments of principal, Make-Whole Amount or Modified Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made in the Netherlands by the Issuer by wire transfer of funds. The Issuer may at any time, by notice to each holder of a Note, change the place of payment of the Notes so long as such place of payment shall be either the principal office of the Issuer in such jurisdiction or the principal office of a bank or trust company in such jurisdiction.

Home Office Payment

The holder of any Note will exercise its financial rights directly through the Issuer. So long as any Purchaser or its nominee shall be the holder of any Note, and notwithstanding anything contained in section “Place of Payment” above or in such Note to the contrary, the Issuer will pay all sums becoming due on such Note for principal, Make-Whole Amount or Modified Make-Whole Amount, if any, and interest by the method and at the address specified for such purpose below such Purchaser’s name in Schedule A to the Note Purchase and Guarantee Agreement, or by such other method or at such other address as such Purchaser shall have from time to time specified to the Issuer in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Issuer made concurrently with or reasonably promptly after payment or prepayment in full of any Note, such Purchaser shall surrender such Note for cancellation, reasonably promptly after any such request, to the Issuer at its principal executive office or at the place of payment most recently designated by the Issuer pursuant to section “Place of Payment” above. Prior to any sale or other disposition of any Note held by a Purchaser or its nominee such Purchaser will, at its election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Note to the Issuer in exchange for a new Note or Notes pursuant to the relevant provisions of the Note Purchase and Guarantee Agreement. The Issuer will afford the benefits of this section “Home Office Payment” to any institutional investor that is the direct or indirect transferee of any Note purchased by a Purchaser under the Note Purchase and Guarantee Agreement and that has made the same agreement relating to such Note as the Purchasers have made in the Note Purchase and Guarantee Agreement.

SUCCESSORS AND ASSIGNS OF THE NOTE PURCHASE AND GUARANTEE AGREEMENT.

All covenants and other agreements contained in the Note Purchase and Guarantee Agreement by or on behalf of any of the parties thereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used by the Issuer to grant an intercompany loan to its parent company illycaffè S.p.A. which in turn will apply the proceeds arising under such intercompany loan to refinance existing indebtedness and for general corporate purposes.

DESCRIPTION OF THE ISSUER

General

illyNL B.V. (the “**Issuer**”) was incorporated as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the laws of The Netherlands on 10 February 2012.

The Issuer is registered with the trade register of the Dutch chamber of commerce under number 54651247 and its telephone number is +31 0786 738888. The business address of the Issuer is at Mijlweg 12, 3295 KH, ‘s-Gravendeel, The Netherlands. Its corporate seat is at ‘s-Gravendeel, The Netherlands.

IllyNL B.V. is a wholly-owned subsidiary of illycaffè S.p.A, since illycaffè holds 100 per cent of the Issuer’s share capital.

Corporate Purpose

Pursuant to article 3 of the articles of association of the Issuer dated 10 February 2012, the objects of the Issuer include: (i) to incorporate, to participate in any way whatsoever in, to manage, to supervise businesses and companies; (ii) to finance businesses and companies; (iii) to borrow, to lend and to raise funds, including the issue of bonds, promissory notes or other securities or evidence of indebtedness as well as to enter into agreements in connection with aforementioned activities; (iv) to render advice and services to businesses and companies of the illycaffè Group and to third parties; (v) to grant guarantees, to bind illyNL B.V. and to pledge its assets for obligations of businesses and companies of the illycaffè Group and for obligations of third parties; (vi) to acquire, alienate, manage and exploit registered property and items of property in general; (vii) to trade in currencies, securities and items of property in general; (viii) to develop and trade in patents, trade marks, licenses, know-how and other intellectual and industrial property rights; (ix) to perform any and all activities of an industrial, financial or commercial nature, and to do all that is connected therewith or may be conducive thereto, all to be interpreted in the broadest sense.

Principal Activities

The Issuer operates as a financing company for the illycaffè Group, raising funds through notes issuances, loans and other facilities and on turn lending the funds so raised to the companies belonging to the illycaffè Group.

Share Capital

The authorized share capital of the Issuer consists of EUR 90,000, divided into 90,000 ordinary shares with a nominal value of EUR 1 each. At the date of this prospectus, a total of 18,000 shares have been issued and paid up, which are all held by illycaffè S.p.A. All issued ordinary shares are and will be in registered form, and no share certificates are or will be issued.

Members of the Management Board

The Issuer is managed by a management board, currently composed of three members. Members of the management board are appointed by the general meeting of shareholders of the Issuer, which may dismiss them at any time. The management board has the power to perform all acts of administration and disposition in compliance with the corporate objects of the Issuer.

Pursuant to its articles of association, the Issuer can be validly represented by the management board in its entirety or by any two members of the management board acting jointly. As at the date hereof, the members of the management board are:

- Mrs. Nolwenn Angèle Anaïs Oreal;

- Mr. Carl Heinrich Teschmacher; and
- Mr. Jan Cornelis Bakker.

The business address of each of these current management board members is that of illyNL B.V. registered office at Mijlweg 12, 3295 KH, 's-Gravendeel, The Netherlands.

Audit committee

The Issuer has established a separate audit committee which, pursuant to section 17 of its articles of association may be composed of one or more individuals (at least one of which shall be independent within the meaning of Article 41 (1) of the Directive 2006/43/EC).

The audit committee will: (i) monitor the financial reporting process; (ii) monitor the effectiveness of the Issuer's internal control, internal audit where applicable and risk management systems; (iii) monitor the statutory audit of the Company's annual accounts and consolidated accounts; and (iv) review and monitor the independence of the external accountant or accountants firm and in particular the provision of additional services to the Issuer.

As at the date hereof, the sole member of the audit committee is Mr. Marcel Nieuwendijk.

Conflicts of Interest

As at the date hereof, the abovementioned members of the management board of illyNL B.V. do not have conflicts of interests between any duties to illyNL B.V. and their private interests or duties.

Employees

As at the date hereof, illyNL B.V. has no employees.

Auditors

The auditor of illyNL B.V. is Ernst & Young, whose registered office is at Boompjes 258, 3011 XZ, Rotterdam, the Netherlands ("**E&Y**"). The independent auditors who will sign on behalf of E&Y are members of the Royal Dutch Institute of Chartered Accountants (*Koninklijk Nederlands Instituut van Registeraccountants* "**NIVRA**").

E&Y has been appointed on 7 March 2012 as independent auditor of the Issuer. E&Y will audit the reporting package 2012 of the Issuer for the purpose of consolidating the Issuer into illycaffè Group and the 2012 statutory financial statements. The audit will be performed in accordance with generally accepted auditing standards in the Netherlands for the year ended 31 December 2012.

Miscellaneous

As the Issuer, through the issuance of the Notes, only attracts repayable funds from professional market parties (*professionele marktpartijen*) as defined in the Dutch Act on the Financial Supervision (*Wet op het financieel toezicht*), the Issuer does not require to be licensed as a bank pursuant to the Dutch Act on the Financial Supervision (*Wet op het financieel toezicht*).

IllyNL B.V. may be appointed by the Dutch Central Bank (*De Nederlandsche Bank N.V.*) as a reporter pursuant to the regulation of 4 February 2003, issued by the Dutch Central Bank, implementing reporting instructions under the Dutch Act on the Financial Foreign Relations 1994 (*Wet financiële betrekkingen buitenland 1994*), and, if so appointed, the Issuer must file reports with the Dutch Central Bank for the benefit of the composition of the balance of payments for the Netherlands by the Dutch Central Bank.

As long as the Notes are listed on the regulated market of the Irish Stock Exchange, the Issuer will be subject to insider trading rules in the Netherlands pursuant to the Dutch Act on the Financial Supervision (*Wet op het financieel toezicht*) and the regulations promulgated thereunder.

DESCRIPTION OF THE GUARANTOR

OVERVIEW

Illycaffè S.p.A. (“**illycaffè**” or the “**Guarantor**”) is a joint stock company (*società per azioni*) with sole shareholder, incorporated with limited liability under Italian law. Its registered office and principal place of business is at Via Flavia 110, 34147 Trieste, Italy and it is registered with the Companies' Register of Trieste under number 0055180327, Fiscal Code and VAT Number 00055180327. Illycaffè may be contacted by telephone on +390403890111, by fax on +390403890490 and by e-mail (info@illy.com).

Pursuant to its by-laws, illycaffè's term of incorporation shall last until 31 December 2050, subject to extension.

The corporate objects of illycaffè, as provided by its by-laws, are *inter alia*: (i) the production and distribution of coffee, the colonial products and their by-products, similar and complementary goods (as well as alimentary and supplemental products) in the internal and international market, with the necessary and consequential industrial activities; (ii) the developing, construction and sale of machines and equipments for the production and utilisation of the above mentioned goods as well as the relevant post-sale assistance; and (iii) the publications of books and magazines. For the purpose of pursuing its corporate object, illycaffè may also engage in any other activity related to the promotion of its products and the optimisation of their quality, including any activity related to the development of an international market of high-quality coffee and to the financial and economic sustain of the raw material producers, also through experimentation. To promote its products within the Italian and foreign markets, it may establish foundations and provide funding also in the absence of consideration and short-term returns.

According to its by-laws, illycaffè may also engage in commercial, industrial, investment and real estate activities provided that illycaffè may not engage in financial activities *vis-à-vis* the public. Illycaffè may also acquire direct or indirect participations and interests in companies or foundations having analogous or contiguous corporate objects, or which may be related to the advertising of its products also through investments in works of art to be realised for the purpose of pursuing its corporate objects.

At the date of this Prospectus, illycaffè has a share capital of Euro 6,300,000.00 divided into 1,050,000 ordinary shares having a nominal value of Euro 6.00 each. 945,000 ordinary shares, equal to 90 per cent. of illycaffè's share capital are directly held by illycaffè's parent company Gruppo illy S.p.A., the sole shareholder of illycaffè. The remaining 105,000 ordinary shares are directly held by illycaffè itself, in accordance with the provisions of Article 2357 of the Italian Civil Code (see “Shareholders” below).

HISTORY

1933-2012: A history of innovation

- 1933** On 8 September, Francesco Illy founded the company in Trieste. When Francesco Illy first arrived in Trieste as a Hungarian serviceman during World War I, he thought Trieste would have been the ideal place to start a coffee business: a multilingual border city offering a port with warehouses, insurance companies and skilled machinery constructors, a city teeming with historical cafés-the intersection of society and culture, a perfect place to transform a raw material from far-off lands into a product which then travels the world.
- 1934** Francesco Illy patented in Italy the “pressurization”, a revolutionary system for preserving the blend, which allowed coffee to be shipped right across Italy.
- 1935** Francesco Illy designed and patented the “*illetta*”, an innovative espresso coffee machines.

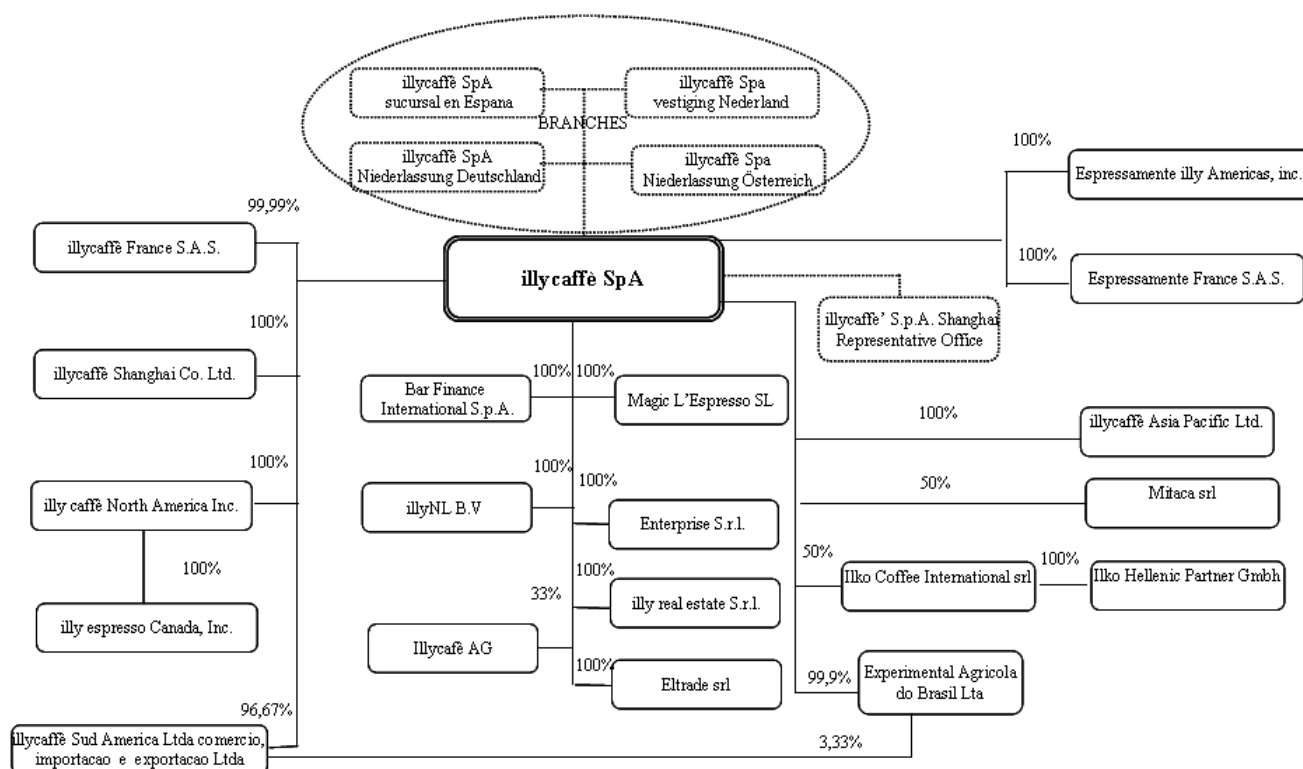
- 1939** Illycaffè introduced the espresso culture to Northern Europe. Holland and Sweden were the first countries outside Italy to discover the illy aroma and delight of concentrated coffee in a small cup.
- 1947** The arrival in the company of Ernesto (Francesco's son), a chemistry graduate, strengthened illycaffè passion for science and technology and alliances were set up with other businesses, science centres and universities.
- 1957** The can manufacturing unit was built, so that the preservation of the coffee aroma and flavour was also directly controlled and guaranteed by the company. Illycaffè's first chemistry laboratory was established, as well as the initial production of coffee for home consumption in smaller-sized, round cans of ground illy coffee.
- 1965** The company moved to its current Trieste headquarters in Via Flavia, which houses the chemistry laboratory, the production of coffee and packaging materials and the packaging process.
- 1974** Illycaffè was the first company to industrialise portioned coffee servings, individual coffee pods for preparing café-quality coffee at home or in the office in the simplest, safest and quickest way.
- 1988** Illycaffè patented the digital sorting machine, which guarantees bean perfection by "photographing" their shape and colour.
- 1991** The designer Matteo Thun, based on Francesco Illy's idea, created the white illy espresso cup. In the same year, the "Brazil Award" was instituted to reward, on a yearly basis, the Brazilian coffee growers who produce the best quality green coffee. "Assicafè", a quality control laboratory was also established in Brazil.
- 1992** The first series of illy collection coffee cups was produced.
- 1996** The current illy logo – a red square with the brand name written in four soft white brushstrokes – was designed by the artist James Rosenquist.
- 1998** Illycaffè founded AromaLab in the Area Science Park in Trieste, where the individual aromas making up the flavour of coffee are identified, studied and mapped.
- 1999** Was established in Naples the "Università del Caffè", a centre of excellence aimed at promoting and spreading the culture of quality coffee offering a wide variety of courses combining a theoretical and practical approach.
- 2002** The Università del Caffè moved to Trieste.
- 2003** The project "illy bar concept", a chain of Italian-style illy cafés was established. By the end of 2010 there were 73 "espressamente illy" concept bar in Italy and about 163 all over the world.
- 2006** After the coffee serving and the E.S.E system (Easy Serving Espresso), an innovative new system the so-called "iperEspresso" was launched for preparing café-quality espresso at home or at the workplace.
- 2009** The "Ernesto Illy Foundation", bearing the name of the founder's son, aimed at spreading knowledge, ethics and sustainability as absolute values in the exercise of entrepreneurship was found in Trieste.

Since its founding, illycaffè has remained a family run company with Ernesto, Francesco's son, who was President for 42 years and his son, Andrea, who is the current Chairman and Chief Executive Officer. Andrea has guided the company towards internationalization, process innovations, the endless pursuit of quality and spreading the culture of coffee.

ILLYCAFFÈ GROUP

Illycaffè is the parent company of the group consisting of illycaffè and its consolidated subsidiaries (collectively, the “**illycaffè Group**”).

The following diagram set forth the illycaffè Group structure as at the date of this Prospectus.



Illycaffè has its principal place of business at Via Flavia 110, 34147 Trieste, Italy and four branches (*sedi secondarie*) in the Netherlands, Spain, Germany and Austria. In addition, illycaffè has a representative office in Shanghai (China).

MISSION, VISION AND VALUES

Mission

Illycaffè aims to delight people all over the world by offering the best possible coffee nature can provide, enhancing its perfection through the most innovative technologies, and inspiring emotional and intellectual involvement.

Vision

Illycaffè aims to be the world reference for coffee culture and excellence. An innovative company offering the finest products in the best places, growing to become the high-end segment leader and creating superior stakeholder value.

Values

Seeking perfection is illycaffè main value. It is expressed in: passion for excellence, meaning love for beauty and well done, and ethics, meaning long term value building through sustainability, transparency and people development.

STRATEGY

The main strategic objectives of the illycaffè Group are: (i) being a reference for coffee excellence and culture; (ii) being the leader in the high-end segment and (iii) creating a superior stakeholder value. In order to achieve these goals, the illycaffè Group's strategy also include:

- the establishment and maintenance of a well-loved and respected global brand;
- being one of the top ten roasters worldwide;
- a premium price in all markets;
- a focus on international expansion;
- acceleration of the distribution strategy and develop a well defined retail format
- keep developing the portioned system as well as other product improvement; and
- an economic, social and environmental sustainability.

BUSINESS OF THE ILLYCAFFÈ GROUP

MAIN BUSINESSES

The illycaffè Group mainly operates:

- (i) in the production and sales worldwide of a unique blend of premium quality espresso coffee;
- (ii) in the production and sales of coffee preparation systems and coffee machines; and
- (iii) in managing and operating its network of franchised and directly operated “Italian-style” coffee shops whose business philosophy is based on seeking the culture of true Italian coffee, the so-called “*espressamente illy*” chain.

The sales of the illycaffè Group products accounted for Euro 305 million in 2010, compared to Euro 283 Million of 2009, resulting in an increase of 7.6 per cent. Illycaffè Group's profits for the financial year ended 31 December 2010 were at Euro 10.9 million evidencing a 110 per cent. increase compared to the same period in 2009. The Italian market constitutes the largest market of the illycaffè Group representing 43.86 per cent. of its total sales in 2010.

The table below set forth the overall economic and financial data of the illycaffè Group for the financial year ended 31 December 2010:

figures in Euro/000

Reclassified income statement and balance sheet figures	2010	2009	Change
SALES	305,006	283,366	7.6%
GROSS OPERATING MARGIN (EBITDA)	44,058	39,624	11.2%
OPERATING RESULT (EBIT)	21,611	17,566	23.1%
NET PROFIT	10,973	5,210	110.6%
NET FINANCIAL POSITION	-102,045	-104,025	-1.9%

A description of several indexes used in this report is provided below:

- *EBITDA*: operating result before amortisation / depreciation and writedowns of tangible and intangible fixed assets;
- *EBIT*: operating result before taxes, financial income and expenses and extraordinary income and expenses;
- *NFP (Net Financial Position)*: the sum of short- and medium/long-term payables to banks and payables to leasing companies and other financial institutions, net of cash and cash equivalents and immediately realisable securities.

With specific reference to the geographical distribution of sales, the table below provides a breakdown of the net sales of illycaffè Group for the financial year ended 31 December 2010:

Amounts in Euro/000

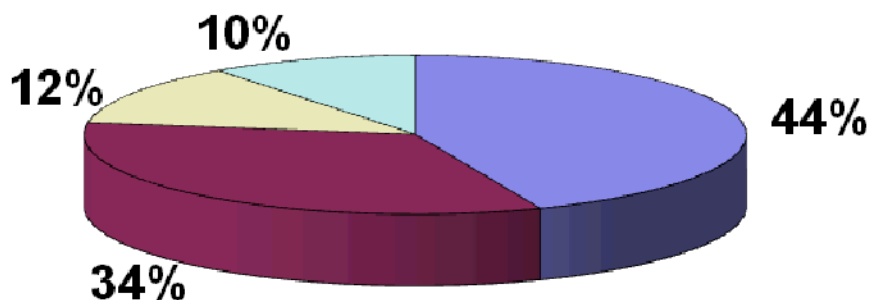
Net sales by geographical area	2010	%	2009	%	Change
Italy	133,787	43.86%	128,557	45.37%	5,230
Europe	102,181	33.50%	96,730	34.14%	5,451
Usa & Canada	38,104	12.49%	34,530	12.19%	3,574
Rest of the world	30,933	10.14%	23,549	8.31%	7,384
Total	305,006	100%	283,366	100%	21,640

Illycaffè Group's turnover composition by business segment for financial year ended 31 December 2010 was apportioned as follows:

- production and sales worldwide of coffee: approximately 87 per cent.
- production and sales of coffee preparation system and coffee machines: approximately 5 per cent.; and
- other sources of business (including without limitation the “espressamente illy” chain): approximately 8 per cent.

The following charts provide the approximate distribution of the illycaffè Group's sales by area of business for the financial years ended on 31 December 2009 and 31 December 2010, respectively:

2010



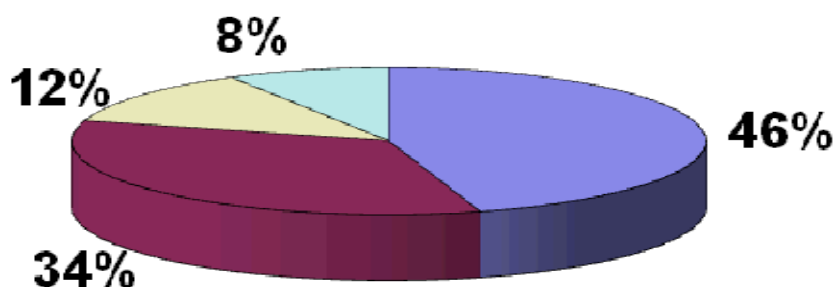
Italy

Europe

Usa & Canada

Rest of the world

2009



Italy

Europe

Usa & Canada

Rest of the world

(I) PRODUCTION AND SALES OF COFFEE

Illycaffè main revenues derives from the production and sales worldwide of a unique blend of premium quality espresso coffee made of nine varieties of pure Arabica. The invariable illy taste and aroma are the results of a balance of beans coming from South America, Central America, India, and Africa. The illy blend is intended for the so-called Ho.Re.Ca. channel (*i.e.* hotel, restaurant, café), and is meant to be used at home and in the office. Furthermore, according to the different channels, it is available in cans (beans or ground coffee), capsules, and pods.

In 2010, the illycaffè Group sold approximately 15,900 tons of coffee, evidencing an increase of approximately 6 per cent. compared to level of 2009.

At present, illycaffè's blend is marketed in 140 countries, all over the 5 continents, and is available in more than 100,000 restaurant and coffee bars in the world.

In 2007 was launched the so-called "Artisti del Gusto" program in order to strengthen the Ho.Re.Ca. development strategy. This program created an international network which illycaffè dedicated to the best coffee shops to expand and enhance their professional competences, partnering with them to assist their development and help maintain their quality levels over time. As at the date of this Prospectus, the project has involved over 1500 coffee shops all over the world.

(II) PRODUCTION AND SALES OF COFFEE PREPARATION SYSTEMS AND COFFEE MACHINES

Below is a discussion of the different coffee preparation systems developed by illycaffè Group, each of which is focused on different customers' needs and preferences:

Iperespresso

Introduced in 2007, it provides a totally innovative way to prepare an espresso cup of coffee based on a capsule with extraction chamber. Unlike traditional systems in which the espresso coffee is produced in a single phase through percolation, in the new capsule the coffee undergoes two steps: hyper-infusion and emulsion. The double step process allows an ideal extraction of the coffee flavour and aroma. As at the date of this Prospectus, this system is covered by five international patents.

Easy Serving Espresso (Ese)

E.S.E. (which stands for Easy Serving Espresso) is the technology used to simplify the preparation of a good espresso using just a few simple operations, based on the adoption of "servings" (individual pre-packed doses containing 7 grams of ground coffee that has been pressed and hermetically sealed between two fine layers of filter paper). This international industrial standard (the only "open" system available for espresso coffee prepared with paper pods) is indeed based on the use of espresso machines and servings, of various brands and models, which are compatible with one another and available in a number of price ranges.

The new-generation of Moka Coffee Pot

Illycaffè has transferred the research and knowledge acquired in the field of espresso coffee to the coffee prepared by a steam pressure moka coffee pot. The possibility of obtaining a beverage with great body and flawless has been helped by defining and controlling the entire extraction process and removing the final phase, the "tail end of the brew", which produces the negative aromas of coffee made with the moka pot. Following this discovery, and also through a collaboration with *Bialetti Industrie*, was launched "Cuor di moka", the first of the new generation of moka coffee pots.

The Office Coffee Service

A further solution for the offices sector – experimenting a large growth in recent years – has been achieved through an agreement with Mitaca S.r.l. (formerly. I.t.a.ca S.r.l.), a company specialised in espresso systems, whose 50 per cent. of the share capital has been acquired by illycaffè in December 2008 (creating a joint venture). The system is based on an espresso coffee maker working with capsules of ground espresso coffee packed one by one in a protective environment. The uniqueness of the new patented system is at the base of the capsule: it is completely closed and therefore enables a perfect infusion of the coffee.

(III) ESPRESSAMENTE ILLY

Espressamente illy is illycaffè Group's project for coffee bars and is based on a striving for quality as a business philosophy. The project consists of licensed coffee bars of innovative design, which interpret the culture of "Italian-style coffee".

The relevant franchise contracts provide for an annual royalty to be paid to illycaffè by the relevant franchisee. Pursuant to such contracts the franchisee is provided with the use and made-to-measure design of distinctive architectural models for bars, the setting, training towards management skills, the food and beverage offer, the serving and sale of products and other services.

Support for the espressamente illy project comes also from the *Università del Caffè* (University of coffee) based in Trieste, a centre of excellence aimed at spreading the coffee culture created by the company. (For more information please see, “*Other Business Activities - Università del Caffè*”, below).

The coffee bar project was launched in 2003. Since then, over 210 coffee bars have been opened in more than 30 countries.

The products offered, all of an Italian inspiration and quality, include the “coffee menu”, which offers not only espresso and cappuccino in different variants, but also innovative coffee-based preparations and cocktails (alcoholic and non-alcoholic), created by the University of Coffee. Quick Italian meals, snacks and desserts constitute the food menu, which can be rounded off with further recipes using typical ingredients from the local area.

Within the espressamente illy coffee bars, there is also space for a shopping area, offering not just coffee and other products from the illy world (including the illy collection cups), but also espresso coffee machines for home consumption, design articles and bar articles adapted for domestic use, as well as gastronomic products (For more details on sales of coffee machines please see subsection “*Production and sales of coffee preparation systems and coffee machines*” below).

Included in the licence there is also a training programme for the bar managers. This involves courses on site and special programmes at the University of Coffee, as well as web updating. The courses are based, *inter alia*, on:

- (i) running the coffee bar (including the preparation of the business plan and relevant regulations applicable), from managing staff to promotion of merchandising, in-store and out-store advertising;
- (ii) correct preparation of coffee, as well as innovative and exclusive coffee-based recipes; and
- (iii) preparation of food and beverages and food visual merchandising.

OTHER BUSINESS ACTIVITIES

In recent years illycaffè has developed ancillary businesses to service its core business. Below is a discussion of such related businesses.

Università del Caffè

In particular, Illycaffè has been focused on spreading the culture of coffee at international level; in this connection it has established the *Università del Caffè* (“**Università del Caffè**”), a training school that offers a complete theoretical and practical training on all subjects connected to coffee. The courses are structured according to the public they address: producers and coffee growers; businessmen and bar staff, restaurants and hotels; consumers and connoisseurs, keen on quality and interested in extending further their knowledge of the world of coffee.

Università del Caffè has its main quarters in Trieste, but is also present abroad in 20 premises: Brazil (São Paulo), China (Shanghai), Colombia (Bogotá), Croatia (Opatja), Czech Republic (Prague), Egypt (Cairo), France (Paris), Germany (Monaco), Great Britain (London), Greece (Athens), India (Bangalore), Malaysia (Kuala Lumpur), Mexico (Mexico City), The Netherlands (Rotterdam), South Africa (Johannesburg), South

Korea (Seoul), Turkey (Istanbul), United States of America (New York), Indonesia (Jakarta), Thailand (Bangkok), Chile (Santiago), Spain (Barcelona) and Norway (Bergen).

The Università del Caffè trains each year more than ten thousand people worldwide. In particular, in 2010, 16,096 people attended this course (of which 965 producers, 8,847 professionals and 6,284 consumers), evidencing a significant increase compared to the 12,991 attendees of 2009.

The illy Art Collection

As a consequence of the close link between the core business of the illycaffè Group and its commitment in contemporary art, in 1992, has been launched the so-called “Art Collection” of coffee cups, consisting of coffee cups designed by contemporary artists. In this project have been involved some of the most famous international and emerging artists (including, Michelangelo Pistoletto and Marina Abramovic, Jeff Koons and Bob Rauschenberg, James Rosenquist and Julian Schnabel) with the aim of transforming an everyday object such as the coffee cup - in this case designed by Matteo Thun - into a must-have and cult object.

SOCIAL ACTIVITIES

Art and literature commitment

Besides the Università del Caffè activities, illycaffè for over twenty years has been actively committed to the circulation of contemporary art, by sponsoring major international exhibitions and working side by side with both established artists and emerging talents. For several editions now, illycaffè has partnered with the *Biennale di Arti Visive* in Venice, and has contributed to the most important and influential international art fairs and exhibitions, such as the Armory Show (New York), Frieze (London), Arco (Madrid), Artissima (Turin), Art Brussels (Brussels), Art Rotterdam (Rotterdam), and Art Forum (Berlin).

In conjunction with key international art events, illycaffè has promoted emerging talents of the art and contemporary design scene through a system of Awards, granted to young artists. Also, the company actively brings art and experimentation to the public, and supports the most authoritative players in this sector, i.e. the Italian Studio Program of P.S.1, the Central St. Martin's College of London and the *Fondazione Pistoletto*.

illy SustainArt

Started in 2007, the illy SustainArt project aims at developing the illycaffè Group's action in contemporary art. Its purpose is to promote to the international artistic community the company's approach to a sustainable growth, and provide all the emerging artists coming from developing countries - with special interest and focus on the countries where the coffee bought by illycaffè comes from - with new visibility opportunities and chances to challenge the market. In 2008 at Artissima and Arco fairs some projects have been presented, and the observatory www.illysustainArt.org has been launched with the purpose of becoming a real instrument of visibility and meeting with the international market. This has been accomplished through the web - and more specifically the wide offers of social media - which allows to create links and connections, and to share the contents beyond distances and geographic borders.

Literature

With respect to literature, illycaffè participates to “*Festivaletteratura*” of Mantova, where is responsible for the project “*Scrittura Giovani*”, open to emerging writers coming from four European countries. Enriching the illy world are also the words that create an ideal place for conversation, an exchange of ideas and experiences. In particular, “illywords” is the magazine through which the company maintains a constant dialogue with the world of art and culture. Each issue explores a different subject, to which writers, artists, designers, and entrepreneurs contribute with their own point of view and experience. The graphic design and images of the magazine are created specifically for each issue by students of international design schools. A blog version has become available online in 2010 (at www.illywords.com).

ILLYCAFFÈ BELONGS TO GRUPPO ILLY

Illycaffè's is controlled by its parent company Gruppo illy S.p.A. (the “**illy Holding Company**”).

The illy Holding Company acquires and holds participation in companies involved in developing the colonial product sector (coffee, tea and chocolate), the confectionery business and complementary products. In addition to illycaffè, the illycaffè Holding Company also controls Domori S.r.l. (high quality chocolate producer), Damman Frères S.a.S. (French tea brand), and Mastrojanni S.r.l. (wine farm of Montalcino (Siena)). It also has shares in Agrimontana S.p.A. (leader company in the business of high quality confectionery products) and Gromart S.p.A. (Italian ice cream producer with shops in Italy and abroad, known as “Grom”).

CORPORATE GOVERNANCE

Corporate governance rules for Italian companies, such as illycaffè, whose shares are not listed on the Italian Stock Exchange are provided in the Italian Civil Code.

Illycaffè has adopted a traditional system of corporate governance, based on a conventional organisational model involving shareholders' meetings, a board of directors and a board of statutory auditors.

Pursuant to illycaffè's by-laws, the management of illycaffè is entrusted to a Board of Directors made up of no fewer than 3 and no more than 9 members appointed by the shareholders' meeting. Furthermore, the Shareholders' meeting may also appoint an honorary Chairman who shall be entitled to attend the meetings of the Board of Directors and may be empowered to perform specific duties.

Directors are appointed for the period established by the shareholders' meeting that appoints them which shall not exceed three financial years. Directors can be reappointed.

Notwithstanding, illycaffè is not a company whose shares are listed on the Italian regulated market and is not subject to the supervision of the *Commissione nazionale per le società e la borsa* (“**CONSOB**”), pursuant to illycaffè's by-laws the directors shall comply with the requirements set forth by the voluntary code of corporate governance issued by Borsa Italiana S.p.A., which has been adopted by illycaffè on a voluntary basis.

The Board of Directors has the widest possible powers to perform the ordinary and extraordinary tasks involved in managing illycaffè. It is authorised to take all the steps that it deems appropriate in order to achieve illycaffè's aims and corporate objectives, with the sole exception of the powers expressly reserved by law to the Shareholders' meeting. In particular, pursuant to illycaffè's by-laws the Board of Directors shall have the option to request a non-binding opinion of the shareholder's meeting on certain matters specified under the by-laws.

Pursuant to its by-laws, the Board of Statutory Auditors of illycaffè is composed of three auditors and two substitutes, who each have to fulfil the requirements provided for by law and illycaffè's by-laws. The members of the Board of Statutory Auditors are appointed for three financial years and can be reappointed. The substitute auditors will replace any statutory auditors who resign or are otherwise unable to serve as a statutory auditor in accordance with the applicable provisions of the Italian Civil Code.

The Board of Statutory Auditors is the corporate body that verifies that administrative matters are in good order and, in particular, whether the organisational, administrative and accounting structure adopted by the Board of Directors is appropriate and operating as it should.

MANAGEMENT

Board of Directors

The shareholders' meeting held on 6 May 2010 appointed current illycaffè's Board of Directors for a period of three financial years, until the shareholder's meeting called to approve illycaffè's financial statements for the financial year ending 31 December 2012.

The following table sets out the current members of the illycaffè's Board of Directors:

Name	Position
Andrea Illy	Chairman/Chief Executive Officer/Chairman of the Executive Committee
Riccardo Illy	Vice Chairman/Member of the Executive Committee
Pierluigi Celli	Member of the Executive Committee
Anna Rossi in Illy	Director/Honorary Chairman
Anna Illy	Director
Mario Cannata	Director
Maurizio Dallochio	Director
Giancarlo Michellone	Director
Marina Salamon*	Director

* On 13 May 2011, Marina Salamon was co-opted member of the Board of Directors.

The business address of the members of the Board of Directors is the Guarantor's registered office.

Main positions held by members of the Board of Directors

The table below lists the main positions held by the members of illycaffè's Board of Directors outside of illycaffè.

Name	Position	Main positions held by Directors outside illycaffè
Andrea Illy	Chairman/Chief Executive Officer/Chairman of the Executive Committee	Director of Gruppo illy S.p.A. Chairman of the Board of Directors of illycaffè North America Inc. Director of illycaffè Shanghai Co. Ltd. Chairman of the Board of Directors of Ilko Coffe International S.r.l. Director of Fondazione Ernesto Illy
Riccardo Illy	Vice Chairman/Member of the Executive Committee	Chairman of the Board of Directors and Chief Executive Officer of Gruppo illy S.p.A. Director of IEDC School of Management

Name	Position	Main positions held by Directors outside illycaffè
		Director of Gromart S.p.A. Director of Fondazione Ernesto Illy Chairman of Domori S.r.l.
Pierluigi Celli	Member of the Executive Committee	Director of Unipol Gruppo Finanziario S.p.A. Director of British American Tobacco
Anna Rossi in Illy	Director/Honorary Chairman	Chairman of the Board of Directors of Fondazione Ernesto Illy Director of Gruppo illy S.p.A.
Anna Illy	Director	Member of the executive board of the Chamber of Commerce of Trieste Vice Chairman of the Board of Directors of Gruppo illy S.p.A. Director of Damman Frères S.a.S. Director of Domori S.r.l. Director of Hacienda San José Sole Director of Serendipity S.r.l. (presently in liquidation). Chairman of the Board of Directors of Experimental Agricola do Brasil Lta
Mario Cannata	Director	Chairman of the Fondazione Lussemburghese (ASBL) Director of the Fondazione Gruppo De Nora
Maurizio Dallochio	Director	Director of Banca Akros S.p.A. Director of Seat Pagine Gialle S.p.A. Chairman of the Board of Directors of City Life S.r.l. Director of RDB S.p.A. Director of Podravska banka d.d. (Croatia) Director of Gabetti Property Solutions S.p.A.
Giancarlo Michellone	Director	Chairman of GCM Consulting S.r.l. Major of the Municipality of Cambiano
Marina Salamon	Director	Sole Director of Alchimia S.p.A. Chairman of the Board of Directors of Altana S.p.A. Executive Director of Doxa S.p.A. Director of Banca IFIS S.p.A. Sole Director of Alchimia M. Seventy S.r.l.

Executive committee

Under the authority conferred on it by illycaffè's by-laws, the Board of Directors has deemed it appropriate to mandate certain activities to an executive committee.

On 6 May 2010, the Board of Directors appointed the Executive Committee, which is currently composed of Mr. Andrea Illy (Chairman), Mr. Riccardo Illy (Vice-Chairman) and Mr. Pierluigi Celli.

The Executive Committee opines on important issues, such as proposed appointments to top level executive positions and the annual group business plan and budget, before such issues are considered by the Board of Directors. The Executive Committee also has the authority to resolve upon transactions relating to amounts, which are in the range between Euro 10million and 25 million. Furthermore the Executive Committee may analyse and authorise the acquisition and dismissal of participations.

Board of Statutory Auditors

The shareholders' meeting held on 6 May 2010 appointed current illycaffè's Board of Statutory Auditors for a period of three financial years, until the shareholder's meeting called to approve illycaffè's financial statement for the financial year ending 31 December 2012.

The following table sets out the current members of the illycaffè's Board of Statutory Auditors.

Name	Position
Umberto Picciafuochi	Chairman
Franco Asquini	Member
Guido Pastori	Member
Pompeo Boscolo	Substitute
Piero Valentici	Substitute

Main positions held by members of the Board of Statutory Auditors

The table below lists the main positions held by the members of illycaffè's Board of Statutory Auditors outside of illycaffè.

Name	Position	Main positions held by Statutory Auditors outside illycaffè
Umberto Picciafuochi	Chairman	Member of the Board of Statutory Auditors of Mitaca S.r.l. Member of the Board of Statutory Auditors of Bar Finance International S.p.A.
Franco Asquini	Member	Director of Alpimerchant S.p.A. Director of A-Venture S.r.l. Director of Eurosolution S.r.l. Director of Fortras S.p.A. Director of GEII Gruppo Europeo di Investimenti Imm.ri S.r.l.

Name	Position	Main positions held by Statutory Auditors outside illycaffè
		Director of Immobiliare Catello S.r.l.
		Director of Unicredit Leasing Russia
		Director of Real Asco S.p.A.
		Chairman of the Board of Statutory Auditors of Botto S.p.A.
		Chairman of the Board of Statutory Auditors of CMC Campo Marzio Costruzioni S.p.A.
		Chairman of the Board of Statutory Auditors of Colorprint S.p.A.
		Chairman of the Board of Statutory Auditors of Co.me.fri S.p.A.
		Chairman of the Board of Statutory Auditors of Edizioni El S.r.l.
		Chairman of the Board of Statutory Auditors of Electrolux Professional S.p.A.
		Chairman of the Board of Statutory Auditors of Emme Sviluppo S.p.A.
		Chairman of the Board of Statutory Auditors of Fin.Mor. S.p.A.
		Chairman of the Board of Statutory Auditors of Lloyd Adriatico Holding S.p.A.
		Chairman of the Board of Statutory Auditors of Pronto Auto S.p.A.
		Chairman of the Board of Statutory Auditors of Riva S.p.A.
		Chairman of the Board of Statutory Auditors of Riva Costruzioni S.r.l.
		Statutory Auditor of Electrolux Italia S.p.A.
		Statutory Auditor of Faber Industrie S.p.A.
		Statutory Auditor of Gervasoni S.p.A.
		Statutory Auditor of Rizzani De Eccher S.p.A.
		Statutory Auditor of Telefriuli S.r.l.
		Statutory Auditor of Telequattro S.r.l.
		Statutory Auditor of Think Simple S.r.l.
Guido Pastori	Member	Chairman of the Board of Statutory Auditors of Giuliana Bunkeraggi S.p.A.
		Chairman of the Board of Statutory Auditors of Trieste Adriatic Maritime Initiatives S.r.l.
		Member of the Board of Statutory Auditors of Depositi Costieri Trieste
Pompeo Boscolo	Substitute	N.a.
Piero Valenticici	Substitute	N.a.

Conflicts of Interest

There are no potential or existing conflicts of interest between the duties of the members of the Board of Directors and the Board of Statutory Auditors to illycaffè and their private interests or other duties.

Transactions with related parties

During its ordinary course of business, the illycaffè Group is involved in business transaction with other associated companies, settled at market conditions.

SHAREHOLDERS

According to available information, as at the date of this Prospectus shareholders which own a shareholding of illycaffè are as follows:

Shareholder	Percentage of share capital
Gruppo illy S.p.A.	90.00%
illycaffè S.p.A.	10.00%
Total	100%

Illycaffè holds 105,000 shares of its own share capital for a nominal value of Euro 6 each (amounting to a total of Euro 285,647), acquired on a long-term basis against possible future swap transactions with third parties.

Such shares are held in accordance with the provisions of Article 2357 and following of the Italian Civil Code; accordingly the percentage of illycaffè's share capital held by illycaffè itself falls within the limits provided therein and a specific restricted reserve has been established under shareholders' equity.

Illycaffè is controlled pursuant to Article 2359, paragraph 1, No. 1, of the Italian Civil Code by Gruppo illy S.p.A., which does not exercise direction and coordination (*direzione e coordinamento*) pursuant to Article 2497 and followings of the Italian Civil Code.

INDEPENDENT AUDITORS

The independent auditors ascertain whether the accounting records are properly maintained and record faithfully the results of operations. They also determine whether the statutory financial statements and the consolidated financial statements are consistent with the data contained in the accounting records and the results of their audits and whether they comply with the requirements of the applicable statutes. They may also perform additional reviews required by industry regulations and provide additional services that the board of directors may ask them to perform, provided they are not incompatible with their audit assignment.

The Guarantor's current independent auditors are Reconta Ernst & Young S.p.A., with registered office in Via Po 32, Rome, Italy ("**E&Y**" or the "**Independent Auditors**").

E&Y is registered under No. 2 in the Special Register (*Albo Speciale*) maintained by Consob and is also a member of the ASSIREVI (*Associazione Nazionale Revisori Contabili*), the Italian association of auditing firms.

The Independent Auditors' current appointment was conferred for the period 2010 – 2012 by the shareholders' meeting held on 6 May 2010 and will expire on the date of the shareholders' meeting convened to approve illycaffè's financial statements for the financial year ending 31 December 2012.

E&Y audited the consolidated annual financial statements of the Guarantor for the financial years ended 31 December 2010.

The consolidated financial statements of the Guarantor for the financial years ended 31 December 2009 have been audited by Pricewaterhouse Coopers S.p.A., the independent auditor to illycaffè until the approval of the financial statements for the financial years ended 31 December 2009.

PricewaterhouseCoopers S.p.A., with registered office in Via Monte Rosa 91, Milan, is registered under No. 43 in the Special Register (*Albo Speciale*) maintained by Consob and is also a member of ASSIREVI (*Associazione Nazionale Revisori Contabili*), the Italian association of auditing firms.

MATERIAL CONTRACTS AND OTHER AGREEMENTS

Financing

In August 2011 illycaffè has been granted with a Euro 6 million facility having a 10 years tenor by *Fondo rotazione iniziative economiche del Friuli Venezia Giulia* (FRIE). Such loan is secured by a special lien over tangible assets (*privilegio speciale* pursuant to Italian law).

Other Agreements

In March 2008, illycaffè and The Coca-Cola Company entered into a joint-venture agreement establishing ILKO Coffee International S.r.l., a limited liability company, whose corporate capital (being Euro 20,000) is 50 per cent. held by illycaffè and 50 per cent. held by The Coca-Cola Company. ILKO Coffee International S.r.l. is involved in the production and distribution worldwide of “Ready-to-Drink” (coffee taste) beverages.

In November 2008, illycaffè has been granted with an option to acquire a further stake of Mitaca S.r.l., formerly I.T.A.CA S.r.l (“**Mitaca**”). Such option may be exercised by illycaffè - within 12 months after the date on which illycaffè shareholders’ meeting has been convened to approve its financial statements for the fiscal year ending on 31 December 2011 - in respect of a further stake of Mitaca equal to 15 per cent. of its share capital. The remaining stake equal to 35 per cent. of Mitaca’s share capital may be then acquired by illycaffè with 24 months after the date on which the option right in respect of the 15 per cent. of Mitaca’s share capital has been exercised. (For further information, see “*Business of the illycaffè Group – Main Business - Production and Sales of Coffee Preparation Systems and Coffee Machines*” above)

In October 2007, illycaffè entered into separate agreements with the shareholders of illycaffè AG (33 per cent. of whose corporate capital is currently held by illycaffè) pursuant to which, upon the occurrence of certain events, illycaffè shall be under an obligation to purchase a further stake of illycaffè AG equal to 134 shares.

PATENTS

The illycaffè Group’s activities are highly dependent on research and developments investments. As a consequence of these researches, various patents have been filed and are actually held by illycaffè. As at 31 December 2010, Illicaffè had filed 412 patents (of which 283 have already been granted and 132 are pending approval).

LEGAL PROCEEDINGS

As part of the ordinary course of business, companies within the illycaffè Group are subject to a number of civil actions and administrative proceeding arising from the conduct of its corporate activities including, without limitation, employee disputes and may from time to time be subject to inspections by taxation and other authorities. As at 31 December 2010, illycaffè Group had a provision in its consolidated financial statement for legal proceedings equal in aggregate to Euro 1,411,000. At the date of this Prospectus, there is nothing to suggest that such provision is inadequate. Notwithstanding the foregoing, the Guarantor believes that none of these proceedings, individually or in the aggregate, will have a material adverse effect on its or the illycaffè Group’s business, financial condition or prospects.

INSURANCE

The illycaffè Group maintains various insurance policies as protection against certain risks associated with its operational activity as well as in relation to the activities of its subsidiaries.

EMPLOYEES

As at 31 December 2010 the illycaffè Group had 792 employees.

RECENT DEVELOPMENTS

In March 2011, illycaffè has obtained the “Supply Chain Responsible Process” certification by the certification agency “Det Norske Veritas”, as a recognition of its responsible supply chain from grower to final product. This recognition follows previous certifications obtained by illycaffè such as, *inter alia*, “UNI EN ISO 14001” and “EMAS (Eco-Management and Audit Scheme) Registration Certificate”

In July 2011, illycaffè acquired the remaining 90 per cent. in a Chinese company (currently, illycaffè Shanghai Co. Ltd.), operating as distributor of the illycaffè Group in China.

In November 2011, illycaffè has launched a new channel for direct retail sales: the so-called “Illypoint”. In particular, illycaffè has opened a temporary shop in Milan, a shop inside the Milan “Coin” store as well as other corner-shop located in other famous stores.

In January 2012, Experimental Agrícola do Brasil Ltda. sold its participation equal to 51 per cent in the share capital of Porto de Santos Comércio, Exportação e Importação Ltda. Accordingly, Porto de Santos Comércio, Exportação e Importação Ltda is no longer part of the illycaffè Group.

TAXATION

The statements herein regarding taxation are based on the laws in force (unpublished case law not included) as at the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The Issuer will not update this summary to reflect changes in laws and if such a change occurs the information in this summary could become invalid. This summary assumes that each transaction with respect to the Notes is at arm's length.

The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to subscribe for, purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules.

Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences under the tax laws of the country in which they are resident for tax purposes and of any other potentially relevant jurisdiction of acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes, including in particular the effect of any state, regional or local tax laws.

This summary assumes that the Issuer and the Guarantor are resident for tax purposes in The Netherlands and in the Republic of Italy, respectively, are structured and conduct their business in the manner outlined in this Prospectus. Changes in the Issuers' and/or in the Guarantor's organisational structure, tax residence or the manner in which each of them conducts its business may invalidate this summary. This summary also assumes that each transaction with respect to the Notes is at arm's length. Where in this summary English terms and expressions are used to refer to Dutch or Italian concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Dutch or Italian concepts under Dutch or Italian tax law respectively.

TAXATION IN THE NETHERLANDS

This taxation summary solely addresses the principal Dutch tax consequences of the acquisition, ownership and disposal of Notes issued on or after the date of this Prospectus. It does not consider every aspect of taxation that may be relevant to a particular Noteholder under special circumstances or who is subject to special treatment under applicable law. Where in this summary English terms and expressions are used to refer to Dutch concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Dutch concepts under Dutch tax law. This summary assumes that the Issuer is organised, and that its business will be conducted, in the manner outlined in this Prospectus. A change to such organisational structure or to the manner in which the Issuer conducts its business may invalidate the contents of this summary, which will not be updated to reflect any such change. Where in this taxation summary the terms "The Netherlands" and "Dutch" are used, these refer solely to the European part of the Kingdom of The Netherlands.

This summary is based on the tax law of The Netherlands (unpublished case law not included) as it stands at the date of this Prospectus. The law upon which this summary is based is subject to change, perhaps with retroactive effect. Any such change may invalidate the contents of this summary, which will not be updated to reflect such change. This summary assumes that each transaction with respect to the Notes is at arm's length.

Where in this Dutch taxation paragraph reference is made to a "Noteholder", that concept includes, without imitation:

1. an owner of one or more Notes who in addition to the title to such Notes has an economic interest in such Notes;

2. a person who or an entity that holds the entire economic interest in one or more Notes;
3. a person who or an entity that holds an interest in an entity, such as a partnership or a mutual fund, that is transparent for Dutch tax purposes, the assets of which comprise one or more Notes, within the meaning of 1. or 2. above; or
4. a person who is deemed to hold an interest in Notes, as referred to under 1. to 3., pursuant to the attribution rules of article 2.14a, of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*), with respect to property that has been segregated, for instance in a trust or a foundation.

Dutch withholding tax

All payments under the Notes may be made free from withholding or deduction of or for any taxes of whatever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority of or in The Netherlands.

Taxes on income and capital gains

The summary set out in this section "*Taxes on income and capital gains*" applies only to a Noteholder who is neither resident nor deemed to be resident in The Netherlands for the purposes of Dutch income tax or corporation tax, as the case may be, and who, in the case of an individual, has not elected to be treated as a resident of The Netherlands for Dutch income tax purposes (a "*Non-Resident Noteholder*").

Individuals

A Non-Resident Noteholder who is an individual will not be subject to any Dutch taxes on income or capital gains in respect of any benefits derived or deemed to be derived from the Notes, including any payment under the Notes and any gain realised on the disposal of the Notes, except if

1. he derives profits from an enterprise, whether as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net value of such enterprise, other than as a shareholder, such enterprise either being managed in The Netherlands or carried on, in whole or in part, through a permanent establishment or a permanent representative in The Netherlands, and his Notes are attributable to such enterprise; or
2. he derives benefits or is deemed to derive benefits from the Notes that are taxable as benefits from miscellaneous activities in The Netherlands (*resultaat uit overige werkzaamheden in Nederland*).

If a Noteholder is an individual who does not come under exception 1. above, and if he derives or is deemed to derive benefits from the Notes, including any payment under such Notes and any gain realised on the disposal thereof, such benefits are taxable as benefits from miscellaneous activities in The Netherlands if he, or an individual who is a connected person in relation to him as meant by article 3.91, paragraph 2, letter b, or c, of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*), has a substantial interest (*aanmerkelijk belang*) in the Issuer.

Generally, a person has a substantial interest in the Issuer if such person – either alone or, in the case of an individual, together with his partner (*partner*), if any, or pursuant to article 2.14a, of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*) – owns or is deemed to own, directly or indirectly, either a number of shares representing five per cent. or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of the Issuer, or rights to acquire, directly or indirectly, shares, whether or not already issued, representing five per cent. or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of the Issuer, or profit participating certificates (*winstbewijzen*) relating to five per cent. or more of the annual profit of the Issuer or to five per cent. or more of the liquidation proceeds of the Issuer.

A person who is entitled to the benefits from shares or profit participating certificates (for instance a holder of a right of usufruct) is deemed to be a holder of shares or profit participating certificates, as the case may be, and such person's entitlement to such benefits is considered a share or a profit participating certificate, as the case may be.

Furthermore, a Noteholder who is an individual and who does not come under exception 1. above may, *inter alia*, derive, or be deemed to derive, benefits from the Notes that are taxable as benefits from miscellaneous activities in the following circumstances, if such activities are performed or deemed to be performed in The Netherlands:

- a. if his investment activities go beyond the activities of an active portfolio investor, for instance in the case of use of insider knowledge (*voorkennis*) or comparable forms of special knowledge;
- b. if he makes the Notes available or is deemed to make the Notes available, legally or in fact, directly or indirectly, to certain parties as meant by articles 3.91 and 3.92 of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*) under circumstances described there; or
- c. if he holds the Notes, whether directly or indirectly, and any benefits to be derived from such the Notes are intended, in whole or in part, as remuneration for activities performed or deemed to be performed in the Netherlands by him or by a person who is a connected person in relation to him as meant by article 3.92b, paragraph 5, of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*).

Attribution rule

Benefits derived or deemed to be derived from certain miscellaneous activities by a child or a foster child who is under eighteen years of age are attributed to the parent who exercises, or the parents who exercise, authority over the child, irrespective of the country of residence of the child.

Entities

A Non-Resident Noteholder other than an individual will not be subject to any Dutch taxes on income or capital gains in respect of benefits derived or deemed to be derived from the Notes, including any payment under the Notes and any gain realised on the disposal of the Notes, except if

1. such Non-Resident Noteholder derives profits from an enterprise directly, or pursuant to a co-entitlement to the net value of such enterprise, other than as a holder of securities, such enterprise either being managed in The Netherlands or carried on, in whole or in part, through a permanent establishment or a permanent representative in The Netherlands, and its Notes are attributable to such enterprise; or
2. such Non-Resident Noteholder has a substantial interest (as described above under Individuals) or a deemed substantial interest in the Issuer.

A deemed substantial interest may be present if shares, profit participating certificates or rights to acquire shares in the Issuer are held or deemed to be held following the application of a non-recognition provision.

General

Subject to the above, a Non-Resident Noteholder will not be subject to income taxation in The Netherlands by reason only of the execution (*ondertekening*), delivery (*overhandiging*) and/or enforcement of the documents relating to the issue of the Notes or the performance by the Issuer of its obligations under such documents or under the Notes.

Gift and inheritance taxes

If a Noteholder disposes of the Notes by way of gift, in form or in substance, or if a Noteholder who is an individual dies, no Dutch gift tax or Dutch inheritance tax, as applicable, will be due, unless:

- (i) the donor is, or the deceased was resident or deemed to be resident in The Netherlands for purposes of Dutch gift tax or Dutch inheritance tax, as applicable; or
- (ii) the donor made a gift of the Notes, then became a resident or deemed resident of The Netherlands, and died as a resident or deemed resident of The Netherlands within 180 days of the date of the gift.

For purposes of the above, a gift of the Notes made under a condition precedent (*opschortende voorwaarde*) is deemed to be made at the time the condition precedent is satisfied.

Other taxes and duties

No Dutch registration tax, transfer tax, stamp duty or any other similar documentary tax or duty, other than court fees, is payable in The Netherlands in respect of or in connection with (i) the execution, delivery and/or enforcement by legal proceedings (including the enforcement of any foreign judgment in the courts of The Netherlands) of the documents relating to the issue of the Notes, (ii) the performance by the Issuer of its obligations under such documents or under the Notes, or (iii) the transfer of the Notes, except that Dutch real property transfer tax (*overdrachtsbelasting*) may be due by a Noteholder if in satisfaction of all or part of any of its rights under the Notes, it acquires any asset, or an interest in any asset (*economische eigendom*), that qualifies as real property or as a right over real property situated in the Netherlands, for the purposes of Dutch real property transfer tax (*overdrachtsbelasting*) or, where the Notes are issued under such terms and conditions that they represent an interest in assets (*economische eigendom*) that qualify as real property, or rights over real property, situated in the Netherlands, for the purposes of Dutch real property transfer tax.

TAXATION IN THE REPUBLIC OF ITALY

Article 2 paragraphs 6-34 of Law Decree 13 August 2011, No. 138, converted into law with amendments by Law 14 September 2011, No. 148 (the “Decree 138”) introduced a general reform of financial income and capital gains pursuant to which, inter alia, save for certain exceptions, such kind of income is subject, starting from 1 January 2012, to withholding (or substitutive) tax at 20 per cent. rate (instead of the former 12.5 per cent. or 27 per cent). Provisional rules are set forth by the Decree 138, which are not described herein.

Payments made by an Italian resident guarantor

There is no authority directly regarding the Italian tax regime of payments on notes made by an Italian resident guarantor. Accordingly, there can be no assurance that the Italian tax authorities will not assert an alternative treatment of such payments than that set forth herein or that the Italian courts would not support such an alternative treatment.

With respect to payments on the Notes made by an Italian resident guarantor, in accordance with one interpretation of Italian tax law, any such payments may be subject to the general Italian withholding tax at the rate of 20 per cent. (as increased from the general 12.5 per cent. applicable until 31 December 2011) as a provisional or a final tax depending on the “status” of the Noteholder, pursuant to Presidential Decree No. 600 of 29 September 1973, as subsequently amended. In the case of payments to non-Italian resident Noteholders, not acting through an Italian permanent establishment to which the Notes are effectively connected, the withholding tax should be final.

Double taxation treaties entered into by Italy may apply allowing for a lower (or, in certain cases, nil) rate of withholding tax in case of payments to non-Italian residents, subject to compliance with relevant subjective and procedural requirements.

In accordance with another interpretation, any such payment made by the Italian resident guarantor should be treated, in certain circumstances, as a payment by the relevant issuer. According to such interpretation, in case of a non-Italian resident issuer such payments would then be taxable in Italy only if made to an Italian resident Noteholder.

SUBSCRIPTION AND SALE

Any purchase, offer, sale or delivery of the Notes or possession or distribution of this Prospectus or of any other document relating to the Notes must comply with all applicable securities laws and regulations in force in any jurisdiction in which such Notes are purchased, offered, sold or delivered or this Prospectus and any other document relating to any Notes possessed or distributed and any consent, approval or permission required for the purchase, offer, sale or delivery of the Notes must be obtained under the laws and regulations in force in the relevant jurisdiction and neither the Issuer nor the Guarantor shall have any responsibility therefor. Neither the Issuer nor the Guarantor represents that the Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

Selling restrictions

United States

The Notes have not been and will not be registered under the Securities Act, and the Notes may not be offered or sold in the United States or to U.S. persons (as defined in Regulation S of the Securities Act) unless so registered, or an exemption from the registration requirements of the Securities Act is available. The Issuer does not intend to register any portion of the offering of the Notes in the United States or to conduct a public offering of the Notes in the United States. The Notes are being offered and sold by the Issuer outside the United States to non-U.S. persons in reliance on Regulation S of the Securities Act, and within the United States in reliance on Section 4(2) of the Securities Act. Any resale of the Notes to any person within the United States or to a U.S. person may be made only in reliance on an exemption from, or a transaction not subject to, the registration requirements of the Securities Act.

European Economic Area

This Prospectus has been prepared on the basis that all offers of the Notes will be made pursuant to an exemption under Article 3 of the Prospectus Directive, as implemented in member states of the European Economic Area (the “**EEA**”), from the requirement to produce a prospectus for offers of the Notes. Accordingly, any person making or intending to make any offer within the EEA of the Notes should only do so in circumstance under which no obligations arise to produce a prospectus for such offer.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”), the offer of any Notes which are the subject of the offering contemplated by this Prospectus are not being rated and will not be made to the public in that Relevant Member State, other than:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100, or if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Manager nominated by the Issuer for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive; provided that no such offer of Notes shall require the Issuer or the Guarantor or any initial purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to

purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

Republic of Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the “**Financial Services Act**”) and Article 34-ter, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (“**Regulation No. 11971**”); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to the Financial Services Act and/or Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of the Prospectus or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the “**Banking Act**”); and

(b) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy or other competent authorities.

The Netherlands

The Notes may not be offered or sold in the Netherlands other than to qualified investors (*gekwalficeerde beleggers*) as defined in the Dutch Act on the Financial Supervision (*Wet op het financieel toezicht*).

General

Each entity purchasing, offering, selling or delivering the Notes has to comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possess or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer, nor the Guarantor shall have any responsibility therefor.

None of the Issuer and the Guarantor represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the U.S. Securities Act and applicable securities laws of any other jurisdiction pursuant to registration or exemption therefrom.

GENERAL INFORMATION

Listing and admission to trading

This Prospectus has been approved as a prospectus issued in compliance with the Prospectus Directive by the Central Bank in its capacity as competent authority in the Republic of Ireland for the purposes of the Prospectus Directive. Application has been made for Notes to be listed on the Official List of the Irish Stock Exchange and admitted to trading on the regulated market of the Irish Stock Exchange.

Expense related to admission to trading

The total expenses related to admission to trading of the Notes are estimated to be approximately €15,000.

Authorisation

The issue of Notes by the Issuer has been duly authorised by a resolution of the Management Board of the Issuer dated 7 March 2012. The guarantee given by the Guarantor in respect of the Notes issued by the Issuer has been duly authorised by a resolution of the Board of Directors of illycaffè dated 6 February 2012. All consents, approvals, authorisations or other orders of all regulatory authorities required by the Issuer and the Guarantor under the laws of the Netherlands and of the Republic of Italy, respectively, have been given for the issue of Notes and the giving of the Guarantee and for the Issuer and the Guarantor to undertake and perform their respective obligations under the Notes and the Notes Purchase and Guarantee Agreement (as the case may be).

Legal and Arbitration Proceedings

Save as disclosed in this Prospectus, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer and the Guarantor are aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer, the Guarantor or the illycaffè Group as a whole.

Foreign languages used in the Offering Circular

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Significant/Material Change

Save as disclosed in this Prospectus, since 31 December 2010 there has been no material adverse change in the prospects of the Guarantor or the Guarantor's group nor any significant change in the financial or trading position of the Guarantor or the illycaffè Group.

Auditors

The consolidated annual financial statements of the Guarantor as at and for the years ended 31 December 2010 and 2009 have been audited without qualification by Reconta Ernst & Young S.p.A. and Pricewaterhouse Coopers S.p.A., respectively. Reconta Ernst & Young S.p.A. and Pricewaterhouse Coopers S.p.A., independent accountants, have given, and have not withdrawn, their consent to the inclusion of their reports included in this Prospectus in the form and context in which they are included. The auditors of the Guarantor have no material interest in the Guarantor. Further information in respect of the auditors is set out in "*Description of the Guarantor – Independent Auditors*", above.

Documents available for inspection

For so long as any Notes shall be outstanding, copies and, where appropriate, English translations of the following documents may be physically inspected during normal business hours at the registered office of each of the Issuer and the Guarantor, namely:

- a) the by-laws of each of the Issuer and the Guarantor;
- b) The audited consolidated financial statements of the Guarantor in respect of the financial years ended 31 December 2010 and 2009;
- c) the Notes Purchase and Guarantee Agreement; and
- d) a copy of this Prospectus.

In addition, a copy of this Prospectus is available on the Irish Stock Exchange's website at www.ise.ie.

Material Contracts

Save as disclosed in this Prospectus, the Guarantor has not entered into any contracts in the last two years outside the ordinary course of business that have been or may reasonably be expected to be material to its ability to meet its obligations to holders of the Notes.

Post-issuance Information

Neither the Issuer, nor the Guarantor, will provide any post-issuance information, except if required by any applicable laws and regulations.

Websites

Any websites referred to herein do not form part of this Prospectus.

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**INDEPENDENT AUDITORS REPORT AS OF AND
FOR THE YEAR ENDED DECEMBER 31 2010**

**Independent auditors' report
pursuant to art. 14 of Legislative Decree n. 39 dated 27 January 2010
(Translation from the original Italian text)**

To the Shareholders of
Illycaffè S.p.A.

1. We have audited the consolidated financial statements of Illycaffè S.p.A. and its subsidiaries, (the "Illycaffè Group") as of and for the year ended 31 December 2010. The preparation of these financial statements in compliance with the Italian regulations governing financial statements is the responsibility of Illycaffè S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. Our audit was performed in accordance with auditing standards issued by the Italian Accounting Profession (CNDCEC) and recommended by the Italian Stock Exchange Regulatory Agency (CONSOB). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

For our opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes as required by the law, reference should be made to the report issued by another auditor dated April 14, 2010.

3. In our opinion, the consolidated financial statements of the Illycaffè Group as of and for the year ended 31 December 2010 have been prepared in accordance with the Italian regulations governing financial statements; accordingly, they present clearly and give a true and fair view of the financial position of the Illycaffè Group as of 31 December 2010 and the results of its operations for the year then ended.
4. The management of Illycaffè S.p.A. is responsible for the preparation of the Report on Operations in accordance with the applicable laws. Our responsibility is to express an opinion on the consistency of the Report on Operations with the financial statements, as required by the law. For this purpose, we have performed the procedures required under auditing standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by the Italian Stock Exchange Regulatory Agency (CONSOB). In our opinion, the Report on Operations is consistent with the consolidated financial statements of the Illycaffè Group as of and for the year ended 31 December 2010.

Treviso, April 13, 2011

Reconta Ernst & Young S.p.A.
Signed by: Claudio Passelli, Partner

**INDEPENDENT AUDITORS REPORT AS OF AND
FOR THE YEAR ENDED DECEMBER 31 2009**

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 2409-TER OF THE CIVIL CODE (NOW IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE N°39 DATED 27 JANUARY 2010)

To the Shareholders of
illycaffè SpA

- 1 We have audited the consolidated financial statements of illycaffè SpA and its subsidiaries ("Gruppo illycaffè") as of 31 December 2009. The directors of illycaffè SpA are responsible for the preparation of these financial statements in compliance with the laws governing the criteria for their preparation. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by Consob, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

The responsibility for the audit of the financial statements of certain subsidiaries and associates, which reflect some 4 per cent of consolidated assets and some 8 per cent of consolidated revenues, rests with other auditors.

The audit of the consolidated financial statements at 31 December 2009 was conducted in accordance with the legislation in force during the year then ended.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to our report dated 14 April 2009.

- 3 In our opinion, the consolidated financial statements of Gruppo illycaffè as of 31 December 2009 comply with the laws governing the criteria for their preparation; accordingly, they give a true and fair view of the financial position and of the results of operations of the Group for the year then ended.
- 4 The Directors of illycaffè SpA are responsible for the preparation of the Directors' Report in accordance with the applicable laws. Our responsibility is to express an opinion on the consistency of the Directors' Report with the financial statements, as required by law. For this purpose, we have performed the procedures required under Italian Auditing Standard No. 001 issued by Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili. In our opinion, the Directors' Report is consistent with the consolidated financial statements of Gruppo illycaffè as of 31 December 2009.

Trieste, 14 April 2010

PricewaterhouseCoopers SpA

Signed by Maria Cristina Landro
(Partner)

This report has been translated into the English language from the original, which was issued in Italian, solely for the convenience of international readers.

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF ILLYCAFFÈ
AS OF AND FOR THE YEAR ENDED DECEMBER 31 2010**



illycaffè SpA

Registered office: VIA FLAVIA 110 – 34147 TRIESTE (TS)

Share capital: Euro 6,300,000 fully paid in

Sole shareholder company

Companies Register no. 0055180327

Registered with R.E.A. under no. 21080

Overview

Macroeconomic Trend

A number of crisis scenarios impacted several countries of the European Union during 2010. In particular, the beginning of the year saw a worsening of the crisis in Greece that had begun in the final quarter of 2009, essentially due to difficulties in the public sector and to limited international competitiveness. Ireland, Spain and Portugal also encountered difficulty during the year as a result of high indebtedness and low international competitiveness. All of this exacerbated the tension on the sovereign debt markets of several countries in the Euro zone, also due to fears of contagion triggered by the serious difficulties within the Irish monetary system. The differentials in the yields of ten-year government bonds of Greece, Ireland, Spain and Portugal compared to German bonds have recorded a significant increase, with a more limited hike in Italy and Belgium. During the G20 summit held in Seoul in November 2010, world leaders approved an action plan aimed at pursuing more balanced overall growth at the global level, with coordinated economic policies (European Stability Mechanism).

According to the professional operators surveyed by Consensus Economics, Gross Domestic Product (GDP) of the Euro zone grew an average of 1.7% in 2010 and will continue its rate of growth in line with recent European projections. Consumer inflation rose to above 2% in December as a result of the prices of energy goods and increases in indirect taxes applied during the second half of the year to several countries. Indicators of medium to long-term inflation forecasts are consistent with the Euro zone's price stability objective. Also to be mentioned are the general price increases in raw materials, which are reflected in the growth of consumer prices.

The American market recorded a different trend from the European one in the year just ended, GDP recorded 2.8% growth, with accelerated consumption, an increase in exports and a reduction in public spending, but there is also significant worry surrounding the slow recovery in terms of jobs lost in the prior two years.

Nevertheless, central banks maintained their official interest rate levels at record lows in 2010. The year 2010 was particularly volatile on the currency markets. The EUR/USD exchange rate began the year at 1.440, rising to over 1.455 in just a few days. The most important reason behind this significant bearish shift was fear regarding the fate of the sovereign debt of the aforementioned countries. However, the EUR/USD rate inverted its trend during the second half of 2010. The year closed at around 1.335, and this shift was once again attributable to various factors, the first and foremost of these being the change in interest differentials between the EUR and USD.

The current macroeconomic scenario is characterised by significant uncertainty. On the one hand, renewed fears regarding sustainability of the sovereign debt of several countries could be reflected in an increase in financing costs for the private sector as well. On the other, however, growth prospects appear to be more solid towards the end of the year, and robust expansion by the emerging economies is confirmed, along with that of Germany among the advanced economies. Assessments on the trends in the American economy are also improving. International trade flows recorded a sharp increase during the year just ended and are expected to continue growing at high rates.

1. THE COFFEE MARKET

a) *ILLY AND THE COMPETITIVE SCENARIO*

In 2010, the Group sold 15,900 tons of coffee, up 6% compared to 2009.

However, the market was slightly down in the Italian HoReCa segment, due to the economic situation.

In ITALY, the RETAIL market, at 112,000 tons, was slightly down compared to 2009 volumes (-1.8%) and down 0.6% in terms of value, at Euro 954 million. The decline was widespread across all players within the sector. Supermarkets accounted for nearly 60% of total business, while hypermarkets generated approximately 22% of the total.

A survey of the Italian Retail segment conducted by IRI, company specialised in Market Research, showed illy to be the second-largest Espresso coffee roaster in terms of value, after Lavazza.

b) *GREEN COFFEE: scenario*

The year just ended saw a worsening of the imbalance between demand for coffee and insufficient global supply, with very low stock levels in the various coffee-producing countries. In the early part of the year, the NYC index oscillated between 130 and 145 US\$ cts/lb, jumping to 165 US\$ cts/lb in mid-June, from which it continued to rise steadily and rapidly to the historical high of 240 US\$ cts/lb at the end of December, for an increase of 80% in six months. This value has not declined significantly even after the end of the year, particularly towards the end of March 2011, remaining at values of over 260 US\$ cts/lb. The reasons behind such performance differ among the various market operators and are linked to fundamental factors (greater demand, climate change, higher coffee consumption, low supply levels) and speculation (investment funds entering the commodities market).

Global production amounted to some 134.8 million sacks, 9.5% higher than the prior coffee-growing campaign.

Although 2011 is a "low production" year as a result of the natural two-year cycle of Arabica coffee, Brazil is expected to produce between 41.9 and 44.7 million sacks. The forecast on 2010 consumption amounts to around 131 million sacks, up compared to the prior year. Growth in consumption appears to be irreversible, particularly in countries undergoing strong development, headed by Brazil. The stock situation remains at no more than 13 million sacks. (Source: ICO, Monthly Coffee Market Report, January 2011).

2. ECONOMIC AND FINANCIAL RESULTS

a) *Key figures*

The year just ended has proven to be significantly better than the prior year, during which the crisis resulted in lower consumption worldwide.

Sales increased by approximately 7.6% compared to 2009, due to a significant increase in volumes, average prices and the product mix sold.

The overall economic and financial data for 2010 show an improved Gross Operating Margin (EBITDA) in both absolute terms (Euro 4.4 million) as well as in terms of impact compared to 2009, an increase in the Operating Result (EBIT) and an increase in the Group's Net Profit.

As a result of higher growth in cash flows, the Net Financial Position improved by 1.9%, amounting to Euro –102 million.

figures in Euro/000

Reclassified income statement and balance sheet figures	2010	2009	Change
SALES	305,006	283,366	7.6%
GROSS OPERATING MARGIN (EBITDA)	44,058	39,624	11.2%
OPERATING RESULT (EBIT)	21,611	17,566	23.1%
NET PROFIT	10,973	5,210	110.6%
NET FINANCIAL POSITION	-102,045	-104,025	-1.9%

A description of several indexes used in this report is provided below:

- *EBITDA*: operating result before amortisation/depreciation and writedowns of tangible and intangible fixed assets;
- *EBIT*: operating result before taxes, financial income and expenses and extraordinary income and expenses;
- *NFP (Net Financial Position)*: the sum of short- and medium/long-term payables to banks and payables to leasing companies and other financial institutions, net of cash and cash equivalents and immediately realisable securities;
- *ROI (Return on Investment)*: the ratio of net profit and the sum of net working capital (inventories, trade receivables and short-term trade payables) and fixed assets (tangible and intangible);
- *ROE (Return on Equity)*: the ratio of the Group's net result and the value of the Group's shareholders' equity at the end of the year, including the result for the year;
- *ROS (Return on Sales)*: the ratio of net operating result (EBIT) and sales;
- *NFP/Equity*: the ratio of net financial position and the value of shareholders' equity of the Group;
- *NFP/Ebitda*: the ratio of net financial position and gross operating margin;
- *Current ratio*: ratio of current assets to current liabilities;
- *Liquidity ratio*: ratio of current and deferred liquidity to liabilities falling due within one year;
- *Number of employees*: the number of employees on the Company's books on the last day of the year.

Several of the key indicators are summarised below:

Key indicators	2010	2009
ROI	11.7%	12.1%

ROE	11.6%	5.8%
ROS	7.1%	6.2%
NFP/Equity	1.07	1.17
NFP/Ebitda	2.32	2.63
Current ratio	1.89	1.36
Liquidity ratio	1.01	0.74
Number of employees	792	796

Some financial indicators improved during the course of 2010, particularly the ROE and ROS, consistently with the focus on profitability of investments and cash generation.

Income statement by function	2010	% of sales	2009	% of sales
Net revenues	305,006	100.0%	283,366	100.0%
Raw material costs	114,741	37.6%	105,569	37.3%
Gross industrial margin	190,265	62.4%	177,797	62.7%
Personnel costs	55,791	18.3%	50,117	17.7%
Cost of goods and services	60,748	19.9%	57,903	20.4%
Advertising and marketing	25,143	8.2%	24,449	8.6%
Other operating costs (net of revenues)	765	0.3%	1,104	0.4%
Provisions	3,760	1.2%	4,601	1.6%
Gross operating margin (EBITDA)	44,058	14.4%	39,624	14.0%
Depreciation of tangible fixed assets	15,826	5.2%	14,704	5.2%
Amortisation of intangible fixed assets	6,621	2.2%	7,354	2.6%
Net operating margin (EBIT)	21,611	7.1%	17,566	6.2%
Net financial result	2,317	0.8%	6,616	2.3%
Other income and expenses	110	0.0%	-1,025	-0.4%
Profit before taxes	19,184	6.3%	11,975	4.2%
Income taxes	8,109	2.7%	6,324	2.2%
Net profit, including minority interest	11,075	3.6%	5,650	2.0%
Minority interest	-102	0.0%	-441	-0.2%
Net profit, Group	10,973	3.6%	5,210	1.8%

Balance sheet	31/12/2010	%	31/12/2009	%
ASSETS				
Trade receivables	60,698	27.2%	58,561	26.3%
– Trade payables	–42,120	–18.9%	–33,722	–15.4%
Inventories	72,209	32.4%	67,316	30.8%
Net working capital	90,787	40.8%	92,154	42.1%
Other receivables	16,115	7.1%	17,481	8.0%
Equity investments and Treasury Shares	6,162	2.8%	4,485	2.1%
Net tangible fixed assets	92,204	41.3%	83,640	38.3%
Net intangible fixed assets	17,749	8.0%	20,877	9.5%
Fixed assets	116,114	52.1%	109,002	49.9%
TOTAL ASSETS	223,016	100.0%	218,637	100.0%
LIABILITIES				
Short-term borrowing, banks	23,444	10.5%	61,479	28.1%
Med./Long-term borrowing, banks	91,496	41.0%	53,275	24.4%
– Cash and cash equivalents	–12,895	–5.8%	–10,729	–4.9%
Net financial position	102,045	45.8%	104,025	47.6%
Other payables	17,233	7.7%	13,340	6.1%
Employee severance indemnity	3,723	1.7%	3,948	1.8%
Other provisions	5,680	2.5%	8,557	3.9%
Total provisions	9,403	4.2%	12,505	5.7%
Minority interests	128,681	57.7%	129,871	59.4%
Minority	–596	–0.3%	–408	–0.2%
Shareholders' equity	94,932	42.6%	89,175	40.8%
TOTAL LIABILITIES	223,016	100.0%	218,637	100.0%

b) Sales

The statement below highlights the distribution of the Group's net sales by geographical region compared to the prior year.

<i>Amounts in Euro/000</i>					
Net sales by geographical area	2010	%	2009	%	Change
Italy	133,787	43.86%	128,557	45.37%	5,230
Europe	102,181	33.50%	96,730	34.14%	5,451
Usa & Canada	38,104	12.49%	34,530	12.19%	3,574
Rest of the world	30,933	10.14%	23,549	8.31%	7,384
Total	305,006	100%	283,366	100%	21,640

Sales amounted to Euro 305 million, compared to 283 million the prior year, for an increase of 7.6%.

Italy continues to be the Group's leading market, recording an increase of 4.1%.

As far as the foreign markets are concerned, an overall growth trend was recorded. In general, all European companies are growing in terms of results, with American companies growing as well, benefiting from the positive effect of the Euro/dollar rate.

c) Costs and provisions

Raw material costs, net of the change in semi-finished and finished products, increased from Euro 105.6 million to Euro 114.7 million, up by Euro 9.1 million, with an essentially stable impact on sales.

The cost of goods and services, equal to Euro 60.7 million, increased by Euro 2.8 million compared to 2009, with an improved impact on sales, from 20.4% to 19.9%.

Advertising and marketing expenses increased by Euro 0.7 million, while the impact on net revenues went from 8.6% of revenues to 8.2%.

Total personnel costs increased by Euro 5.7 million, going from Euro 50.1 million to Euro 55.8 million. The impact on sales revenues rose from 17.7% in 2009 to 18.3% in 2010.

Depreciation and writedowns of tangible fixed assets increased in value from Euro 22.1 million to Euro 22.4 million, and the impact on revenues declined from 7.8% to 7.4%.

d) Net profit and taxation

Consolidated net profit amounted to Euro 11.1 million, up Euro 5.8 million compared to 2009, after allocating taxes for Euro 8.1 million.

The tax rate applied to profit before taxes was 42.3%, compared to 52.8% in 2009. This lower rate is connected to the accelerated depreciation/amortisation exemption carried out by the Parent Company.

e) Net financial position

The Group's consolidated net financial position moved from Euro -104 million to Euro -102 million, down Euro 2 million compared to 2009.

Medium/long-term debt amounted to Euro 91.5 million overall, accounting for 90% of the total indebtedness to banks and other financial institutions. Amounts due to other financial institutions include financial leasing debts, which amounted to Euro 9.8 million at year-end.

Financial management activities (financial income and expenses, including currency exchange gains and losses) amounted to Euro 2.2 million, down compared to 2009 (Euro 6.6 million), with a 0.75% impact on revenues, down from 2.3%. The change is mainly attributable to positive items recorded during the year in currency transactions involving the dollar and the Brazilian real.

Financial expenses recorded with respect to banks also improved, due to the reduction in average indebtedness during the year and the essential stability of interest rates in line with the year 2009.

f) *Branches*

In 2010, illycaffè SpA continued to operate in Barcelona (Spain), marketing our products throughout the Iberian Peninsula, and in Munich (Germany), serving the German market. The respective addresses of these branches are C/Pere IV 397-401, Naves 7-8 08020 Barcelona and Staffelseestrasse 4, 81477 Munich.

g) *New investments*

On 17th March 2010, the new Brazilian company illycaffè sud america ltda was established, to distribute the product in Brazil. The company is 97.67% owned by illycaffè spa and 2.33% by Experimental Agrícola do Brasil.

On 4th August 2010, illy bar concept spa was merged by incorporation into illycaffè, effectively retroactively from 1st January 2010.

The transnational merger by incorporation with illycaffè Nederland BV was carried out during the year, effective 1st January 2011, with simultaneous establishment of the Dutch branch illycaffè Spa Nederland Branch, with headquarters at Mijlweg 12, 3295 KH's Gravendeel, The Netherlands.

3. *RESEARCH & DEVELOPMENT*

The AromaLab (Science Park Area) and SensoryLab laboratories were consolidated in 2010, through accreditation pursuant to the ISO 17025 standard, with accreditation certification no. 1147/0 issued by Accredia on 14/12/2010. The tools necessary to establish Biolab for the genomic part of coffee in the Science Park Area were also identified and acquired.

In terms of industrial research, studies on sustainability continued, along with studies on polymeric materials, in collaboration with the University of Trieste, and on the use of waste to obtain fine chemicals, in collaboration with the University of Padua.

The study on biologically active compounds in roasted coffee also continued, extending it to green coffee as well, and further research was carried out on lipase activity, in collaboration with the University of Udine, and on the identification of lipids via NMR (Nuclear Magnetic Resonance) with the University of Padua. Research also continued on the chemical-structural nature of arabinogalactan and on its biological activity, in collaboration with the Slovak Academy of Sciences of Bratislava.

Approval was received for the subsidised project POR FESR 2007-2013 "Cardiovascular Diseases: from genetic and environmental risk factors to prevention through innovative nutrition".

The team of researchers submitted 3 articles to scientific magazines, 12 posters, held 8 lectures at scientific conferences and participated in the 23rd ASIC Conference held in Bali (Indonesia). In

2010, the Parent Company invested approximately Euro 1.5 million in Research & Development, equal to 0.5% of consolidated sales, distributed as follows:

Fixed assets	Euro 0.4 million
Amortisation and depreciation	Euro 0.3 million
Operating costs	Euro 0.2 million
Cost of services	Euro 0.4 million
Cost of materials	Euro 0.1 million
Leases and rentals	Euro 0.1 million

Patents

The Parent Company's patent portfolio at 31st December 2010 included 412 patents filed, of which 283 granted and 132 pending approval, broken down into 42 families.

Energy and the environment

A mapping of the energy situation was carried out and the resulting audits planned. Energy-saving and building automation initiatives were therefore proposed and implemented in the Distripark logistics hub, along with tests on internal/external led-based lighting fixtures, timers, twilight sensors and optimisation of the compressed air distribution line in the plant.

Work was also carried out during the year to define a project to recover heat from the roasting plant and transform it into hot water for heating and sanitary use.

4. OVERVIEW OF ESPRESSAMENTE ILLY ACTIVITIES

After dedicating 2009 to a redefinition of its strategy and business model, 2010 was the year of implementation: now more than ever, the *espressamente* chain represents the true Italian-style bar, showcasing and promoting the culture, style and products of illycaffè and of the illy Group in all areas of transit around the world, through partnerships with leading Horeca operators. Although it is a quality-based project, *espressamente* has established itself as a leading Horeca chain "client" of illycaffè, with some 187 tons of coffee consumption.

Further mention goes to an important recognition assigned to the chain during the Coffee Symposium in Rome: the award of "best coffee shop chain in Italy", ahead of major competitors like Lavazza Expression and Mc Café.

5. OVERVIEW OF UNIVERSITÀ DEL CAFFÈ ACTIVITIES

Training activities saw the participation of 16,096 attendees (of which 965 producers, 8,847 professionals and 6,284 consumers), compared to 12,991 in 2009. New openings in South Africa, Malaysia, Indonesia, Thailand and Norway have increased the number of existing locations in the world to 21. The second-level university Master's degree entitled "Ernesto Illy Master's Degree in Coffee Economics and Science" began during the year, in collaboration with the Universities of Trieste and Udine, Sissa and other institutional players (including the Ernesto Illy Foundation), with 15 participants from the major coffee-producing countries (Columbia, Brazil, El Salvador, India, Kenya, Tanzania, Uganda, Ethiopia, Guatemala and Costa Rica). The advertising activities of

Cultura del Caffè Division have expanded further with a third multimedia box “Stilista del bar” and the book “L’Aroma del Mondo” by Elisabetta Illy, published by Hoepli.

6. **BUSINESS WITH ASSOCIATED COMPANIES**

Company name	Country	Share capital	Shareholders' equity	Profit (Loss)	% Held	Parent company
Mitaca Srl	Italy	1,820,000	7,449,168	473,685	50%	illycaffè spa
Ilko Coffee International Srl	Italy	20,000	1,723,581	(3,286,434)	50%	illycaffè spa
Ilko Hellenich Partners GmbH	Austria	35,001	(529,361)	(665,542)	33%	Ilko Coffee International srl
Cafè de Espressamente Ltd	Hong Kong	HK\$ 10,000	HK\$ 7,601,699	HK\$ (294,563)	30%	illycaffè spa
Dachan Espressamente illy Ltd.	People's Republic of China	USD 3,500,000	USD 3,440,607	USD (10,643)	30%	illycaffè spa
Espressamente illy Ltd.	Taiwan	NT\$ 48,000,000	NT\$ 7,805,856	NT\$ (2,727,400)	30%	illycaffè spa
Espressamente illy Food & Beverage Management Co. Ltd.	People's Republic of China	RMB 19,431,007	RMB 7,573,862	RMB (2,404,630)	30%	Dachan Espressamente illy Ltd.

Further details on transactions with related parties can be found in the Notes to the financial statements.

7. **BUSINESS WITH THE PARENT COMPANY**

Receivables and payables stated on the Balance Sheet with respect to the Parent Company refer to amounts due from/to the Parent Company to/from Gruppo Illy Spa, resulting from the 2008 decision to continue to opt for national tax consolidation.

8. **TREASURY SHARES**

The Parent Company holds 105,000 treasury shares, representing 10% of the share capital. It does not hold shares or quotas of parent companies, even through trust companies or other intermediaries. No shares or quotas of parent companies were acquired during the year.

9. **FINANCIAL RISK: OBJECTIVES AND POLICIES**

The Group constantly monitors the financial risks to which it is exposed, with the objective of minimising the impact of negative changes on the company's performance.

The following financial risks are considered: credit risk, liquidity risk and market risk (which includes exchange rate risk, interest rate risk and commodity prices risk).

These risks are managed centrally by the Finance & Administration Department according to guidelines agreed upon by top management.

The Group also uses financial derivatives solely for the purpose of hedging against the aforementioned risks.

Credit risk

The Group attempts to limit the risk of client insolvency to the greatest extent possible, applying rules to ensure that sales are made to reliable and solvent clients. Based on client solvency and credit history information, together with the exposure limits for each client, these rules make it possible to reduce the concentration of credit and, consequently, minimise the relative risk. Exposure to credit risk is also spread across a high number of counterparts and clients.

Individual positions may be written down where the amounts are significant and the Group identifies situations where said amounts cannot be objectively collected, totally or partially, taking into account any guarantees provided and the costs for recovering the amounts. For amounts that have not been written down individually, the Group allocates the appropriate provisions, based on historical experience and statistics.

Liquidity risk

Liquidity risk arises as a result of the inability to acquire sufficient financial resources, at optimal conditions and with the right timing, to support operations. The Group's cash flows, financing requirements and liquidity are constantly monitored centrally by the Treasury Department, in order to ensure effective and efficient management of financial resources. The sufficiency of the latter with respect to liquidity risk is guaranteed by the expected cash flows and by the availability on the current credit lines. Furthermore, the financial parameters required for some medium/long-term loans have been respected as at 31st December 2010.

Market risk

- *Exchange rate risk*

The Group operates in foreign markets, generating foreign currency flows that result in exposure to exchange rate risk. The raw material (green coffee) is purchased in US\$ throughout the world (Central America, India and Ethiopia) and in the local currency in Brazil (Real). However, while the net currency balance in US\$ is essentially even, since the Group purchases but also sells in dollars for more or less the same amount, the currency balance in terms of the Real is in a debit position, requiring the Group to carry out hedging transactions on the market, in accordance with the aforementioned general principles. The instruments used are normally forward transactions with the most prestigious and competent bank counterparts, within time frames that may even exceed one year.

- *Interest rate risk*

Indebtedness to banks exposes the Group to the risk of fluctuations in interest rates. In particular, variable rate loans are subject to the risk of changes in cash outflows, while fixed rate loans may undergo a potential change in their fair value.

The Group regularly assesses its exposure to interest rate risk and manages this risk through financial derivatives known as Interest Rate Swaps (I.R.S.) stipulated with leading financial institutes.

- *Commodity prices risk*

The Group is exposed to the risk of changes in commodity prices, as the coffee market is highly volatile, impacted by macroeconomic factors (supply and demand) and financial factors (index fund investments, hedge funds, etc.). To limit price volatility, the Group uses derivative instruments with banks specialised in the agricultural sector, aimed at defining the purchase price of the raw material for the subsequent year.

10. **MANAGEMENT OF THE MAIN BUSINESS RISKS**

The main risks and uncertainties to which the Group is potentially exposed in the pursuit of its business objectives are outlined below, together with a description of the methods to manage these risks.

For the sake of clarity, the risk factors are grouped according to their origin into two homogeneous risk categories: those arising outside of the Company (**external risks**) and those arising from characteristics of the organisation itself (**internal risks**).

External risks

As far as external risks are concerned, the Group carries out centralised management of the financial risks, as described in point 9 of this report.

In terms of commodity risks, the risk of price changes may also be accompanied by that of difficulty in sourcing coffee, since the Group always selects and purchases the best quality Arabica coffee. However, the procurement policy is planned well in advance and long-term contracts are sometimes stipulated with our producers in strategic countries, in order to ensure product quality.

Strategic risks include factors that could affect strategic opportunities or threats. In particular, the Group must ensure the capacity to:

- take advantage of new business opportunities in terms of geographical areas and business segments;
- accurately evaluate market potential;
- protect its brands, essential for success and competitiveness on the market.

Market risks include the effects of market changes on our business. From the distribution point of view, competition may increase also as a result of the few entry barriers. Furthermore, our main competitor worldwide could further increase its market share with massive spending on advertising and communications.

The Group predominantly focuses on the quality of its product and on using a single blend of roasted coffee. Moreover, our business could become sensitive to changes in consumer choices, as our product is positioned in the high-end segment of the market. Consumer preferences could theoretically change from time to time in each of our markets.

Our business is also sensitive to climactic conditions to a certain extent. Severe droughts or frosts during green coffee harvesting could trigger a significant hike in the cost of the raw material, with potentially negative effects on results.

Deflationary pressure on prices as a result of increased competition and changes in consumer preferences could also have a negative impact on economic performance and, consequently, on the financial situation.

In terms of **risks regarding health, safety and the environment**, significant attention is paid to environmental issues and to workplace health and safety. Training courses and workshops are frequently organised for employees, particularly on safety-related issues. In 2003, Illycaffè obtained UNI EN ISO 14001 environmental management system certification from the certification agency DET NORSKE Veritas Italia, and in 2004 it was issued an EMAS (Eco-Management and Audit Scheme) Registration Certificate by APAT (*Agenzia per la Protezione dell'Ambiente e Servizi Tecnici* – Agency for the protection of the environment and technical services).

In terms of health, coffee is sometimes the focus of media campaigns highlighting the possible risks associated with high daily consumption of this beverage and the potential damage.

Internal risks

Internal risks include **operating risks** linked to possible negative consequences arising from internal processes, organisation or systems connected to current operations. The expansion and growth strategy has increased the impact of fixed and operating costs, also in order to strengthen our image and market share. Furthermore, several changes to our IT systems are underway, which, for their very nature, involve a risk of temporary interruption of activities. These changes regard replacement of the current systems with more recent versions. However, we believe to have taken all of the necessary measures to limit such risks, through testing, training and development of the preparatory phases with the suppliers of the new systems.

In terms of **risks connected to the management of human resources**, the Group acknowledges the importance of human resources as strategic partners, as well as the importance of maintaining transparent relationships based on mutual loyalty and trust and on application of behaviours dictated by the Code of Ethics recently adopted by our Company. Management and collaboration in employment relationships is based on respect for employees' rights and on full recognition of their contribution, encouraging professional development and growth. Annual performance assessments are also carried out, based on a clear definition of shared objectives, measured in numerical, economic and financial terms, as well as on an individual basis, in order to determine the variable performance-based component of remuneration.

11. SECURITY PROGRAMME DOCUMENT

“Disclosure pursuant to Legislative Decree 196 of 30th June 2003 (Protection of personal data)”

Pursuant to section 26 of the Technical Regulations on minimum security measures, under Annex B of Legislative Decree 196 of 30th June 2003 (Protection of personal data), the *Documento Programmatico sulla Sicurezza* or DPS (Security Programme Document or SPD) was updated in March 2009 as regards the processing of personal data.

The SPD contains the information required under section 19 of the aforementioned Technical Regulations, and it describes the security measures adopted by the Group in order to reduce to a minimum any risk of destruction or loss, even accidental, of personal data, of unauthorised access

or of processing that is not permitted by or compliant with the purposes for which the data was collected.

12. *SUBSEQUENT EVENTS AND FORECAST FOR 2011*

Performance of sales during the initial months of the year has demonstrated a growing trend compared to 2010. Nevertheless, the Group is constantly committed to handling the increase in coffee prices and implementing cost/investment control measures and actions to optimise on sales prices.

There is no pressure on the financial side, and the Group continues to work on expansion, with credit lines granted by the banks.

In terms of commodities and foreign exchange, the markets are constantly impacted by high volatility, while interest rates are showing a general growth trend.

In January 2011, the Inland Revenue Office began an assessment of the Parent Company's accounting records for the 2009 fiscal year. This assessment is still underway.

Lastly, on 18th March 2011, the Parent Company obtained "Supply Chain Responsible Process" certification by the Det Norske Veritas certification agency, as a responsible supply chain from grower to final product.

Chairman of the Board of Directors
Andrea Illy

illycaffè Spa - CONSOLIDATED BALANCE SHEET
AT 31/12/2010

	2010 (in Euros)		2009 (in Euros)	
A) Subscribed capital unpaid (of which called capital)		0		0
B) FIXED ASSETS				
I. Intangible fixed assets				
1) Start-up and expansion expenses	110.148		167.675	
2) R&D and advertising costs	920.767		1.246.957	
3) Industrial patents and intellectual property rights	2.763.427		2.781.182	
4) Concessions, licenses, trademarks and similar rights	2.464.555		2.999.153	
5) Goodwill	5.841.946		6.819.463	
6) Intangible fixed assets under construction and advances	911.935		846.206	
7) Other	4.736.206	17.748.984	6.016.007	20.876.644
II. Tangible fixed assets				
1) Land and buildings	45.038.998		42.467.690	
2) Plant and machinery	21.208.735		21.068.858	
3) Industrial and commercial equipment	16.055.521		13.120.713	
4) Other assets	5.056.992		4.636.058	
5) Tangible fixed assets under construction and advances	4.843.449	92.203.697	2.346.521	83.639.840
III. Financial fixed assets				
1) Equity investments in:				
a) subsidiaries	2.048.836		0	
b) associates	371.702		772.185	
c) parent companies	0		0	
d) other companies	3.455.513	5.876.051	3.427.513	4.199.698
2) Receivables from:				
a) subsidiaries				
within 12 months	0		0	
beyond 12 months	0	0	0	0
b) associates				
within 12 months	0		103.972	
beyond 12 months	104.453	104.453	0	103.972
c) parent companies				
within 12 months	0		0	
beyond 12 months	0	0	0	0
d) others				
within 12 months	680.711		909.941	
beyond 12 months	2.387.986	3.068.698	2.114.572	3.024.514
Total receivables		3.173.151		3.128.485
3) Other securities		0		0
4) Treasury shares (Total nominal value)		285.647		285.647
TOTAL FIXED ASSETS		119.287.529		112.130.314

illycaffè Spa - CONSOLIDATED BALANCE SHEET
AT 31/12/2010

	2010 (in Euros)		2009 (in Euros)	
C) CURRENT ASSETS				
I. Inventories				
1) Raw materials and consumables	44.379.799		41.175.703	
2) Work in progress and semi-finished products	190.981		180.522	
3) Work in progress	0		0	
4) Finished products and goods	25.682.941		24.236.225	
5) Advances	1.955.153	72.208.875	1.723.263	67.315.713
II. Receivables				
1) Trade receivables				
within 12 months	60.382.749		58.320.210	
beyond 12 months	315.380	60.698.129	240.734	58.560.944
2) Subsidiaries				
within 12 months	219.981		0	
beyond 12 months	0	219.981	0	0
3) Associates				
within 12 months	0		0	
beyond 12 months	0	0	0	0
4) Parent companies				
within 12 months	309.806		253.966	
beyond 12 months	0	309.806	0	253.966
4 bis) Taxes				
within 12 months	2.470.141		2.331.418	
beyond 12 months	0	2.470.141	0	2.331.418
4 ter) Deferred tax assets				
within 12 months	5.934.640		5.635.465	
beyond 12 months	0	5.934.640	22.723	5.658.188
5) Others				
within 12 months	1.525.094		3.139.517	
beyond 12 months	472.911	1.998.005	273.881	3.413.397
Total receivables		71.630.702		70.217.913
III. Current financial assets				
1) Investments in subsidiaries	824.000		824.000	
2) Investments in associates	0		0	
3) Investments in parent companies	0		0	
4) Other investments	0		0	
5) Treasury shares (total nominal value)	0		0	
6) Other securities	1.666.865	2.490.865	1.914.790	2.738.790
IV. Cash and cash equivalents				
1) Bank and postal deposits	11.212.112		8.780.284	
2) Cheques	0		0	
3) Cash in hand	15.966	11.228.078	33.433	8.813.718
TOTAL CURRENT ASSETS		157.558.520		149.086.133
D) ACCRUED INCOME AND PRE-PAID EXPENSES				
- Discount on loans	0		0	
- Other	1.185.044	1.185.044	1.871.527	1.871.527
TOTAL ASSETS		278.031.092		263.087.974

illycaffè Spa - CONSOLIDATED BALANCE SHEET
AT 31/12/2010

	2010 (in Euros)		2009 (in Euros)	
A) SHAREHOLDERS' EQUITY				
I. Share capital	6.300.000		6.300.000	
II. Share premium reserve	0		0	
III. Revaluation reserve	6.308.963		6.308.963	
IV. Legal reserve	2.827.248		2.827.248	
V. Statutory reserve	0		0	
VI. Reserve for treasury shares	285.647		285.647	
VII. Other reserves:				
grants taxable on a straight-line basis	0		0	
for grants, taxed	0		0	
extraordinary	74.279.690		72.878.931	
capital gains on investments, under art. 54 TUIR	0		0	
fiscal	0		0	
grants to the capital account	797.731		797.731	
translation reserve	-2.906.548		-3.690.713	
VIII. Profits (losses) carried forward	-3.933.673		-1.742.637	
IX. Profit (loss) for the year	10.972.694		5.209.527	
Consolidated shareholders' equity, Group		94.931.753		89.174.699
Equity attributable to minority interest	-698.341		-849.047	
Profit (loss) attributable to minority interest	102.272		440.872	
Total consolidated shareholders' equity, group and minority interest		94.335.684		88.766.524
B) PROVISION FOR RISKS AND CHARGES				
1) Funds for treatment of quiescence and similar obligations	0		0	
2) Provision for taxation, including deferred tax liabilities	1.230.185		3.610.012	
3) Other provisions for contingencies and other charges	4.449.750	5.679.934	4.947.053	8.557.066

illycaffè Spa - CONSOLIDATED BALANCE SHEET
AT 31/12/2010

	2010 (in Euros)		2009 (in Euros)	
C) EMPLOYEE SEVERANCE INDEMNITY		3.723.027		3.947.534
D) PAYABLES				
1) Bonds				
within 12 months	0		0	
beyond 12 months	0	0	0	0
2) Convertible bonds				
within 12 months	0		0	
beyond 12 months	0	0	0	0
3) Amounts due to shareholders for loans				
within 12 months	0		0	
beyond 12 months	0	0	0	0
4) Amounts due to banks				
within 12 months	18.544.226		57.256.973	
beyond 12 months	78.991.306	97.535.532	41.829.802	99.086.774
5) Amounts due to other financial institutions				
within 12 months	4.899.786		4.222.021	
beyond 12 months	12.504.849	17.404.635	11.445.184	15.667.205
6) Advances				
within 12 months	0		0	
beyond 12 months	0	0	0	0
7) Trade payables				
within 12 months	42.119.690		33.722.431	
beyond 12 months	0	42.119.690	0	33.722.431
8) Trade notes issued				
within 12 months	0		0	
beyond 12 months	0	0	0	0
9) Amounts due to subsidiaries				
within 12 months	0		0	
beyond 12 months	0	0	0	0
10) Amounts due to associates				
within 12 months	0		0	
beyond 12 months	0	0	0	0
11) Amounts due to parent companies				
within 12 months	1.766.730		583.356	
beyond 12 months	0	1.766.730	0	583.356
12) Amounts due to tax authorities				
within 12 months	3.074.896		2.317.638	
beyond 12 months	0	3.074.896	0	2.317.638
13) Amounts due to social security institutions				
within 12 months	3.693.762		3.278.517	
beyond 12 months	0	3.693.762	0	3.278.517
14) Other payables				
within 12 months	8.058.168		6.002.662	
beyond 12 months	3.099	8.061.267	0	6.002.662
Total payables		173.656.512		160.658.584
E) ACCRUED LIABILITIES AND DEFERRED INCOME				
- Premiums on loans	0		0	
- Other	635.935	635.935	1.158.267	1.158.267
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		278.031.092		263.087.974
Commitments, currency to deliver		0		0
Commitments, currency to buy		30.740.658		0
Commitments, property to buy		0		0
Commitments, goods to buy		9.201.535		0
Guarantees provided in favour of associates		0		0
Guarantees provided in favour of third parties		206.000		26.000
Unsecured guarantees		0		250.322
Commitments, Interest Rate Swaps		63.714.286		58.500.000
Commitments, lease contracts		996.116		776.246
Guarantees received from third parties		193.617		1.065.199
Commitments, futures		0		0

illycaffè Spa - CONSOLIDATED INCOME STATEMENT
AT 31/12/2010

	2010 (in Euros)		2009 (in Euros)	
A) VALUE OF PRODUCTION				
1) Revenues from sales and services		305.006.395		283.366.226
2) Changes in inventories of work in progress, semi-finished and finished products		2.585.939		-2.260.728
3) Changes in contract work in progress		0		0
4) Increase in fixed assets from internal production		761.122		217.593
5) Other revenues and income:				
- other	6.649.746		5.923.689	
- operating grants	0	6.649.746	3.590	5.927.280
TOTAL VALUE OF PRODUCTION		315.003.202		287.250.371
B) COST OF PRODUCTION				
6) Raw materials, consumables and goods		119.327.970		99.964.106
7) Services		81.099.812		77.594.141
8) Leasing and rental expenses		4.791.068		4.758.028
9) Personnel:				
a) Wages and salaries	40.882.917		36.594.132	
b) Social security	12.068.598		11.171.679	
c) Employee severance indemnity	1.839.930		1.706.456	
d) Retirement benefits and similar obligations	0		0	
e) Other costs	999.683	55.791.129	644.546	50.116.813
10) Amortisation, depreciation and writedowns:				
a) Amortisation of intangible fixed assets	6.621.418		7.354.500	
b) Depreciation of tangible fixed assets	15.701.718		14.429.202	
c) Other writedowns of fixed assets	124.184		274.579	
d) Writedowns of receivables included within current assets and of cash and cash equivalents	1.985.260	24.432.581	1.160.154	23.218.435
11) Changes in raw materials, consumables and goods		-1.239.769		3.561.560
12) Provisions for risks and other charges		0		0
13) Other provisions		1.775.084		3.440.683
14) Other operating expenses		7.414.775		7.031.087
TOTAL COST OF PRODUCTION		293.392.650		269.684.852
DIFF. BETWEEN VALUE AND COST OF PRODUCTION (A-B)		21.610.553		17.565.519

illycaffè Spa - CONSOLIDATED INCOME STATEMENT
AT 31/12/2010

	2010 (in Euros)		2009 (in Euros)	
C) FINANCIAL INCOME AND EXPENSES				
15) Income from investments in:				
- subsidiaries	0		0	
- associates	0		0	
- others	415.178	415.178	125.991	125.991
16) Other financial income:				
a) from receivables held as financial fixed assets:				
- subsidiaries	0		0	
- associates	0		0	
- parent companies	0		0	
- others	23.790		31.868	
b) from securities held as financial fixed assets	0		0	
c) from securities held as current assets	83.720		58.604	
d) income other than above, from:				
- subsidiaries	0		0	
- associates	26.375		0	
- parent companies	0		0	
- others	1.420.095	1.553.980	1.475.815	1.566.288
		1.969.158		1.692.279
17) Interest and other financial expenses:				
- subsidiaries	0		0	
- associates	0		0	
- parent companies	0		0	
- others	-6.612.195	-6.612.195	-6.678.858	-6.678.858
17bis) Foreign currency exchange gains and losses	2.870.380	2.870.380	-1.494.908	-1.494.908
TOTAL FINANCIAL INCOME AND EXPENSES		-1.772.657		-6.481.487
D) ADJUSTMENTS TO FINANCIAL ASSETS				
18) Revaluations:				
a) equity investments	111.258		0	
b) financial fixed assets	0		0	
c) securities held as current assets	0	111.258	0	0
19) Writedowns:				
a) equity investments	-655.022		-134.559	
b) financial fixed assets	0		0	
c) securities held as current assets	0	-655.022	0	-134.559
TOTAL ADJUSTMENTS TO FINANCIAL ASSETS		-543.763		-134.559

illycaffè Spa - CONSOLIDATED INCOME STATEMENT
AT 31/12/2010

	2010 (in Euros)		2009 (in Euros)	
E) EXTRAORDINARY INCOME AND EXPENSES				
20) Income:				
- gains on disposals	0		0	
- prior years taxes	287.844		0	
- other	831.065	1.118.909	1.641.225	1.641.225
21) Expenses:				
- losses on disposals	0		-69.230	
- prior years taxes	-3.750		-6.261	
- other	-1.225.197	-1.228.947	-540.427	-615.918
TOTAL EXTRAORDINARY INCOME AND EXPENSES		-110.038		1.025.308
EARNINGS BEFORE INCOME TAX (A-B+-C+-D+-E)		19.184.095		11.974.780
22) Income taxes for the year: current taxes, deferred tax assets and liabilities		-8.109.129		-6.324.381
23) Profit/loss for the year including minority interest		11.074.966		5.650.399
Minority interest		-102.272		-440.872
Net profit for the group		10.972.694		5.209.527



illycaffè SpA

Registered office: Via Flavia, 110 – 34147 Trieste (TS)
 Share capital: Euro 6,300,000 fully paid in
 Sole shareholder company
 Companies Register no. 00055180327
 Registered with R.E.A. under no. 21080

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31st DECEMBER 2010

FORMAT AND CONTENT OF THE FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with the provisions of Legislative Decree 127/91, implementing EEC Directive VII in Italy, and consist of the balance sheet (drawn up in accordance with articles 2424 and 2424 *bis* of the Italian Civil Code), the income statement (drawn up in accordance with articles 2425 and 2425 *bis* of the Italian Civil Code) and these Notes to the financial statements. The purpose of these Notes is to provide the information required under art. 38 of Legislative Decree 127/91, by other provisions of the Civil Code regulating the preparation of financial statements and by other prior legislation. The Notes also provide any additional information deemed necessary for a true and accurate representation of the company's position and results, even where not specifically envisaged by law.

Unless otherwise specified, all amounts are stated in Euros.

CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements, consolidated on a line-by-line basis, include the financial statements of illycaffè SpA at 31st December 2010 and the financial statements of the following directly or indirectly-held subsidiaries as at the same date:

		<u>Share capital</u>	<u>Stake held</u>
Illycaffè France SAS	Euro	1,064,000	99.99%
Illy caffè North America Inc.	US\$	4,970	100%
Illycaffè Nederland B.V.	Euro	181,600	100%
Espressamente France SAS	Euro	1,200,000	100%
Bar Finance International SpA	Euro	1,250,000	100%
Magic l'Espresso SL	Euro	279,465	100%
Experimental Agricola do Brasil Ltda	R\$	4,242,853	99.90%
Porto de Santos Comercio e Exportacao Ltda	R\$	420,000	51%
Illycaffè Asia Pacific Ltd.	Euro		100%
Espressamente illy America Inc.	US\$	25,000	100%
Enterprise Srl	Euro	10,000	100%
Illy Real Estate Srl	Euro	26,000	100%

Illy espresso Canada Inc.	Can\$	2,000,100	100%
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The following companies have also been included within the scope of consolidation, but on a proportional basis:

		<u>Share capital</u>	<u>Stake held</u>
Ilko Coffee International Srl	Euro	20,000	50.00%
Ilko Hellenich Partners GmbH	Euro	35,001	33.33%
MITACA Srl	Euro	1,820,000	50.00%

Other Current financial assets include the Parent Company's 100% share in ***Eltrade Srl***, with headquarters in Trieste and carried at cost. This investment was not included within the scope of consolidation, pursuant to art. 28, clause 2d) of Legislative Decree 127/91.

The Parent Company's accounting records periodically include data from its branches abroad, specifically ***illycaffè SpA Niederlassung Deutschland*** and ***illycaffè SpA Sucursal en Espana***, as required by law.

During the year, the Parent Company merged Illy Bar Concept Spa by incorporation, effective retroactively from 1st January 2010, and established the company ***illycaffè Sud America Ltda*** in Sao Paolo, holding a 97.67% stake directly and the remaining 3.33% stake indirectly, through Experimental Agricola do Brasil Ltda. The latter company was not included in the consolidation area for the year 2010, pursuant to art. 28, clause 2c) of Legislative Decree 127/91.

For purposes of transparency, note that the joint venture I.T.A.CA Srl changed its company name to MITACA during the year.

The Parent Company holds call/put options with the shareholders of MITACA Srl for the acquisition of an additional 15%, to be exercised within 12 months from approval of the financial statements at 31st December 2011, and a further 35%, to be exercised within 12 months from the 24th month following exercising of the 15% option.

The financial statements used for consolidation are those drawn up by the Boards of Directors of the individual companies and submitted to their respective Shareholders' Meetings for approval.

These financial statements have been adjusted, where necessary, to comply with the evaluation criteria envisaged by art. 2426 of the Italian Civil Code, as used within the Group, integrated and interpreted according to the accounting standards issued by the "Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri" (National Board of Chartered Accountants), as amended by the "Organismo Italiano di Contabilità" (Italian Accounting Standard Authority).

Basis of consolidation

The following criteria were used in preparing the consolidated financial statements:

- a) consolidation of the individual companies' financial statements on a line-by-line basis and elimination of the book value of investments held by the Parent Company and

other consolidated companies against the recording of the relative shareholders' equity. Positive differences arising upon acquisition (or first-time consolidation) of investments from elimination of the relative book value and the corresponding equity interest of these companies at current values are recorded as intangible fixed assets under "Consolidation difference", while negative differences are recorded under the shareholders' equity item "Consolidation reserve". Consolidation difference is amortised on a straight-line basis over a period of five to twenty years;

- b) elimination of the receivables, payables, costs and revenues arising from transactions between consolidated companies;
- c) elimination of the profits on sales to subsidiaries included in the value of inventories, net of the relative tax effect;
- d) conversion of the financial statements of foreign subsidiaries into Euros, applying the year-end exchange rate to assets and liabilities and the average rate for the year to income statement items. Exchange rate differences arising from translation of foreign currency financial statements are recorded directly under shareholders' equity. The table below indicates the exchange rates applied in accordance with accounting standard OIC 17:

Currency	2010		2009	
	Average rate	Year-end rate	Average rate	Year-end rate
USD	1.32572	1.3362	1.39478	1.4406
CAN\$	1.36511	1.3322	1.58496	1.5128
R\$	2.33143	2.2177	2.76742	2.5113
NT\$	41.7274	39.0438	46.0182	46.1304
HK\$	10.2994	10.3856	10.8114	11.1709

- e) interest in shareholders' equity held by minority shareholders of consolidated companies is recorded separately under the shareholders' equity item "Equity attributable to minority interest", while the minority shareholders' interest in the net results of said companies is stated separately in the consolidated income statement under "Net income Minority interest".

Basis of preparation and accounting policies

The criteria used in drawing up the financial statements at 31st December 2010 are consistent with those used for the previous year, particularly as regards the evaluation and the continuity of accounting standards, as envisaged by article 2423-*bis* and as per the principles introduced by Legislative Decree 6/2003 on the reform of corporate law, as last amended by Legislative Decree 32 of 2nd February 2007 and Legislative Decree 173 of 3rd November 2008.

Financial statement items have been valued based on the general criteria of prudence and on an accrual basis, in view of the company as a going concern, taking into account the economic function of the specific asset or liability item.

Application of the principle of prudence involved individual evaluation of the components of each asset or liability item, in order to avoid compensation between losses to be recognised and profits not to be recognised because not realised.

In accordance with the accrual principle, the effects of transactions and other events were recorded and attributed to the period to which they refer, and not to the period in which the

relative cash flows (collections and payments) occur.

Continuity in the application of the evaluation criteria over time is necessary in order to permit comparison of the Company's financial statements over different periods.

Evaluations that reflects the economic function of assets and liabilities, on the principle that substance prevails over form - mandatory where not expressly in contrast with other financial statements rule - permits the transactions to be represented according to the economic reality underlying the formal aspects.

In drawing up these financial statements, the Company has applied the Accounting Standard of the National Board of Chartered Accountants , as reviewed by the OIC (*Organismo Italiano di Contabilità* - Italian Accounting Standard Authority).

In particular, the following evaluations criteria were adopted in drawing up the financial statements at 31st December 2010:

Intangible fixed assets

These are stated at purchase or production cost, including any directly attributable additional charges and net of amortization recorded in prior periods and assigned directly to the individual items.

If impairment is identified, regardless of amortization already accrued, the asset is written down accordingly. If the causes of the writedown cease to exist in subsequent periods, the original value of the asset is restored, net of amortization.

Research and development costs are fully written to the income statement in the year in which they are incurred, unless they regard specific, clearly defined products whose technical feasibility has been reasonably demonstrated and for which there exists a future market and the possibility of recovering costs from future revenues. The original value is amortised on a straight-line basis over a period of five years, which is the useful life of these assets.

Industrial patents and intellectual property rights include the cost of developing and registering industrial patents and data processing systems and are stated at purchase or production cost. These costs are amortised every year, according to their residual useful life and legal duration. Concessions, trademarks and similar rights are amortised according to their residual useful life, estimated at ten years for trademarks.

Leasehold improvements are amortised at rates that are based on the duration of the underlying contract.

The amortization criteria used for the various categories of intangible fixed assets are outlined below:

- Start-up and expansion expenses	3/5 years
- Research & development and advertising costs	5 years
- Industrial patent rights	10 years
- Know-how, intellectual property and internet rights	3/5/10 years
- Concessions, licences, trademarks and similar rights	5/10 years
- Goodwill	5/20 years
- Other intangible fixed assets	2/3/4/5/6/9 years

Tangible fixed assets

These are stated at purchase or production cost, net of accumulated depreciation. Certain tangible fixed assets have been revalued as a result of application of specific monetary alignment laws, as discussed in the relevant section of these Notes.

The value recorded in the financial statements includes additional charges and direct and indirect costs incurred for use of the asset, to the extent reasonably attributable to the asset in question.

Tangible fixed assets are depreciated on a straight-line basis at rates defined according to their residual useful life.

If impairment is identified, regardless of depreciation already accrued, the asset is written down accordingly. If the causes of the writedown cease to exist in subsequent periods, the original value of the asset is restored, net of depreciation.

During the first year of operation of new fixed assets, depreciation is applied at 50% of the highest rate.

Maintenance costs that lengthen an asset's useful life are recorded as a direct increase of the asset's value.

Ordinary maintenance costs are fully charged to the income statement during the year in which they are incurred.

Investment goods purchased through financial leasing contracts are stated under fixed assets at their historical cost, in accordance with the International Accounting Standard (IAS 17), depreciated at category-specific rates, with the corresponding financial debt to leasing companies recorded under liabilities.

The following depreciation rates were applied, considered to be representative of the useful life of the relative assets:

- Buildings	3.00%
- Plant and machinery	12.50%
- Specific Spare parts for plant and machinery	as per useful life of underlying asset
Industrial and commercial equipment	
- Coffee equipment	30.00%
- Internal vehicles	20.00%
Other assets	
- Electronic equipment	20.00%
- Furnishing and office equipment	12.00%
- Vehicles	25.00%
- Lightweight constructions	10.00%
- Packaging	40.00%
- Moulding machines	40.00%
- Furnishings for trade fairs, etc.	33.33%
- Furnishings for Concept Bar	20.00%
- Laboratory equipment	40.00%

Equity investments

Investments in subsidiaries not consolidated on a line-by-line basis are valued based on the equity method.

Investments in associates pursuant to art. 2359 of the Italian Civil Code are valued using the equity method, while investments in other companies are stated at cost.

Inventories

Inventories are recorded at the lesser of purchase or production cost, determined on a weighted average cost basis by transaction and expected realisable value based on market trends. The expected realisable value is calculated by taking into account any production costs to be incurred and the direct sales costs.

This value is then adjusted, where possible, by way of the “*stock obsolescence fund*”, in order to take into account stocks for which the realisation value is expected to be lower than cost.

Inventories whose realisable value had been written down and for which the reasons for the writedowns ceased to exist have been restored to their original cost.

Receivables

Receivables are recorded at their expected realisable value. Nominal values are written down to the expected realisable value through the bad debt provision, taking into account the general economic and industrial conditions and the country risk.

Receivables originally collectible within the year and subsequently transformed into long-term receivables are recorded in the balance sheet under financial fixed assets.

Securities

Securities held as financial fixed assets until their natural maturity are recorded at purchase cost, plus any directly attributable additional costs.

Securities held as current assets are valued at the lower of purchase cost and realisable value.

Accruals and prepaid expenses

These have been determined on an accrual basis.

The conditions determining the original recognition of long-term accruals and deferrals were verified, making the appropriate adjustments where necessary.

Provision for risks and charges

These provisions are intended to cover losses or payables that are either certain or likely to occur but whose amounts or date of occurrence could not be determined at year-end.

The provision was calculated on an accrual basis and in accordance with the general criteria of prudence, and no general provisions for contingencies without an economic justification were set up.

Potential liabilities were recognised in the financial statements under the relevant provisions, as they are deemed likely and their amount can be reasonably estimated.

Risks for which the occurrence of a liability is only possible are indicated in the Notes to the financial statements.

Employee severance indemnity Pension funds

Following the reform of the supplementary pension system introduced by Legislative Decree 252/2005, employee severance indemnity amounts accrued up to 31st December 2006, reflecting the full liability towards employees under the current legislation and labour agreements, are maintained in the balance sheet as a provision and gradually extinguished through payments to employees leaving the Group. Employee severance indemnity amounts accrued subsequently to either pension funds or to the National Social Security Institute (INPS) are recorded in the income statement on an accrual basis, reflecting the amounts payable to the relative pension fund or national social security institute.

Payables

These are stated at nominal value and amended in the event of returns or invoicing adjustments.

Recognition of revenues

Revenues from the sale of products are recognised upon transfer of ownership, which normally corresponds to delivery or shipment of the goods.

Revenues of a financial nature and from the supply of services are recognised on an accrual basis.

Revenues and income, charges and expenses relative to foreign currency transactions are recorded at the exchange rate in force on the date in which the relative transaction is carried out.

Grants to the capital account

Grants to the capital account are gradually written to the income statement over the asset's useful life as the relative amounts accrued become certain.

Dividends

Dividends are recorded during the year in which their distribution is resolved, which generally corresponds to the year in which they are paid.

Income taxes for the year

Provisions for taxes are made on an accrual basis and represent the following:

- provisions for taxes paid or to be paid for the period, calculated at current rates and according to current legislation;
- the amount of deferred tax assets or liabilities in relation to temporary differences arising from or reversed during the period.

Deferred tax assets and benefits arising from fiscal losses are only recognised when their recovery is reasonably certain. Therefore, a positive balance for deferred tax assets is only recognised if sufficient future taxable income to absorb it is likely or only for those deferred tax assets that will be reversed in periods during which deferred tax liabilities for similar amounts occur.

Deferred taxes have been calculated according to the global allocation approach, taking into account the cumulative amount of all temporary taxable differences. Deferred taxes were not allocated to deferred tax reserves, as no transactions involving taxation are envisaged.

Deferred tax assets and liabilities were calculated based on the theoretical rates in force during the last year in the various countries of the consolidated companies, which also represent the expected rates at the moment in which these temporary differences are reversed.

In 2008, the Parent Company, as consolidated company, renewed the option for national tax consolidation. This allows consolidated companies to calculate their corporate income tax (IRES) based on the algebraic sum of the positive and negative taxable incomes of the individual consolidated companies, together with *Gruppo Illy SpA*, the latter being the consolidating company.

Business relationships, as well as the mutual responsibilities and obligations, between the consolidating company and its subsidiaries, are defined in the “*Regolamento di consolidato*” (Consolidation rules) for Group companies.

Tax liabilities are recorded under the item “*Due to parent company*”, net of prepayments, withholding taxes and tax credits in general.

Deferred and prepaid IRES is calculated on the temporary differences between the values of assets and liabilities determined according to accounting standards and the corresponding fiscal values, referring exclusively to the Parent Company.

Current, deferred and prepaid IRAP (regional business tax) is calculated exclusively with reference to the Parent Company.

Guarantees, commitments, third-party assets and risks

Risks relating to guarantees provided, unsecured or backed by collateral, for third-party debts are stated in the memorandum accounts for an amount equal to that of the guarantee provided. The amount of third-party debt guaranteed at year-end, if less than the guarantee provided, is indicated in these Notes.

Commitments, including those in derivative instruments, are indicated in the memorandum accounts at nominal value, as obtained from the relative documentation.

The evaluations of forward contracts on commodities or currencies is carried out at the pre-established forward price.

Risks likely to give rise to a liability are described in the explanatory notes, with the appropriate allocations to the provision for contingencies.

Risks for which a future liability is only a possibility are described in the Notes to the financial statements, without any allocation of provisions, in accordance with the relative accounting standards. Risks of a remote nature were not taken into consideration.

Derivative instruments

The Parent Company uses financial instruments to protect its results from unfavourable oscillations in interest rates, exchange rates and the price of green coffee and washed coffee. The company’s policy is to use these instruments within the limits defined by the requirements for operations and not to take any speculative positions.

Interest rate risk

Derivatives subscribed to hedge against the risk of an increase in interest rates on loans are recorded differently depending on whether or not they satisfy the conditions set forth by regulations to qualify as a “hedging” derivative.

Derivatives that hedge against interest rate risk are valued consistently with the liabilities hedged. The interest rate differentials during the year on said contracts are stated on an accrual basis under financial income and expenses. Furthermore, at year-end, an allocation is

made to the balance sheet for interest to be accrued in relation to the subsequent periodic liquidation of the differential. The fair value of the derivative contract is indicated in the Notes to the financial statements.

If a derivative contract on interest rates cannot be defined as a hedge and its fair value is negative, the amount is allocated under financial liabilities. If the fair value is positive, the relative amount is only indicated in the Notes to the financial statements, without recording any financial asset.

Exchange rate risk

In order to protect itself against the risk of oscillations in the exchange rate of the Brazilian Real in purchasing green coffee, the Parent Company carries out foreign currency forward purchase contracts based on the purchasing budget. For these contracts, the Company records the differential between the forward exchange rate and the exchange rate at maturity of the derivative fully upon liquidation of the same in the income statement, under item C 17-*bis*) foreign currency exchange gains and losses.

If these contracts do not qualify as hedges, a financial liability is allocated (in the case of negative fair value of the contract) or a financial asset is recorded (in the case of positive fair value of the contract).

Price risk

To hedge against the risk of changes in coffee prices, the Parent Company takes out Commodity Swap Transaction contracts based on the purchasing budget for the following year. In terms of accounting, these contracts qualify as hedging instruments. Therefore, the differential liquidated at the derivative's maturity date is recorded consistently with the underlying transaction and thus under deferrals upon liquidation of the derivative and subsequently used to adjust the purchase price upon recognition.

Foreign currency item conversion criteria

Receivables and payables originally expressed in foreign currencies, recorded at the exchange rates in force when they arose, are aligned to the current exchange rates at year-end, as published by the *European Central Bank* on 31st December 2010.

In particular, assets and liabilities that are not held as fixed assets, as well as long-term financial receivables, are stated at the year-end spot exchange rate. Gains and losses on the conversion of receivables and payables are credited/debited to the income statement under item 17 *bis* "Foreign currency exchange gains and losses".

Any net gains arising from adjustment of foreign currency items to year-end rates are recorded in the income statement. Upon approval of the financial statements and consequent allocation to legal reserve, the portion of net gains not absorbed by losses for the year is recorded under a non-distributable reserve until subsequent realisation.

Fixed assets in foreign currency, on the other hand, are stated at the exchange rate in force upon acquisition or at the lower year-end rate only if the negative changes have resulted in impairment of these fixed assets.

OTHER INFORMATION

Inter-company profits

Calculation of inter-company profits includes revenues from the sale of coffee (raw material and finished goods), kits and coffee machines between consolidated Group companies and in stock at 31/12/2010.

Elimination of inter-company receivables/payables and charges/revenues

Differences arising from elimination of intra-group receivables/payables and charges/revenues due to different exchange rates used (rate at time of transaction and rate at time of consolidation) are recorded, respectively, in the income statement under “Foreign currency exchange gains and losses” for eliminated receivables/payables and under “Translation difference reserve” for eliminated charges/revenues.

Derogations

Pursuant to art. 35 of Legislative Decree 127/1991 and in accordance with the provisions of the last paragraph of article 2423-*bis* of the Italian Civil Code, the company declares not to have derogated from the above as regards the evaluations of specific asset and liability items. Similarly, pursuant to clause 4 of article 2423, the Company has not identified any potential incompatibilities with the true and accurate representation resulting from application of the provisions on format and contents of the income statement and balance sheet and the evaluations criteria such as to justify derogation from them.

Membership in a Group

The Company is part of Gruppo Illy, the Parent Company of which is Gruppo Illy SpA, company which, pursuant to article 2497 et seq. of the Italian Civil Code, does not exercise management and coordination activities. Therefore, the disclosure required by law is not deemed necessary.

COMMENTS ON THE MAIN ASSET ITEMS

FIXED ASSETS

INTANGIBLE FIXED ASSETS

Intangible fixed assets are broken down as follows:

	<u>Values at 31/12/2009</u>		<u>Values at 31/12/2010</u>		
	<u>Net book value</u>	<u>Historical cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>	<u>Change</u>
Start-up and expansion expenses	167,675	661,294	551,145	110,148	(57,527)
R&D and advertising costs	1,246,957	5,202,780	4,282,013	920,767	(326,190)
Industrial patents and intellectual property rights	2,781,182	15,998,779	13,235,352	2,763,427	(17,755)
Concessions, licences, trademarks and similar rights	2,999,153	13,047,738	10,583,184	2,464,555	(534,599)
Consolidation difference and Goodwill	6,819,463	10,983,496	5,141,551	5,841,946	(977,517)
Intangible fixed assets under construction and advances	846,206	911,935	0	911,935	65,729
Other	<u>6,016,007</u>	<u>33,720,010</u>	<u>28,983,804</u>	<u>4,736,206</u>	<u>(1,279,801)</u>
Total intangible fixed assets	20,876,644	80,526,032	62,777,048	17,748,984	(3,127,660)

The item Start-up and expansion expenses showed an overall reduction compared to the prior year, due to amortization during the year (Euro 72.0 thousand) net of increases by the Parent Company and MITICA for Euro 3.5 thousand and Euro 10.9 thousand, respectively.

The increase in R&D and advertising costs during the year was mainly due to capitalisation by the Parent Company of the planning and realisation costs for the Y1 Metodo Iperespresso machine, designed for a new generation of espresso lovers, for Euro 246.2 thousand, and by MITACA Srl for Euro 139.0 thousand.

The item Industrial patents and intellectual property rights increased during the year as a result of costs incurred by the Parent Company for rights to various artists for the decorations created on the illycollection cups.

Concessions, licences, trademarks and similar rights increased mainly due to trademark costs incurred by the Parent Company for Euro 156.5 thousand.

The positive change in Intangible fixed assets under construction and advances includes the Parent Company increase of Euro 271.0 thousand, net of the Euro 367.9 thousand decrease for components that entered service during the year, and the increase of Euro 236.5 thousand by MITACA Srl, net of Euro 73.9 thousand in decreases regarding research and development projects for the launch of marketing activities in 2010, particularly in terms of the I1, I2 and I3 dispensing machines.

The change in Consolidation difference and Goodwill is mainly attributable to:

- Euro 344.0 thousand for amortization of the consolidation difference arising from elimination of the investment in MITACA Srl;
- Euro 27.7 thousand for amortization of the consolidation difference resulting from elimination of the investment in Porto de Santos;
- Euro 4.9 thousand for amortization of the consolidation difference resulting from elimination of the investment in illy espresso Canada;
- Euro 47.8 thousand for amortization calculated upon consolidation of *Fond du Commerce* of Espressamente France;
- Euro 25.4 thousand for amortization of the consolidation difference arising from elimination of the investment in Enterprise Srl;
- Euro 69.4 thousand for amortization of the consolidation difference resulting from elimination of the investment in illy Real Estate;
- Euro 400.0 thousand for amortization of the goodwill arising from the Parent Company's acquisition of the Distripark division from G. Pacorini;
- Euro 40.0 thousand for amortization of the goodwill arising from acquisition of the Bon Sol Café S.L. business division by illycaffè SpA Sucursal en Espana.

The decrease in Other intangible fixed assets mainly refers to the combined effect of costs sustained by the Parent Company to implement the JDE IT system, including the “*Rest of the world*” integration, for Euro 195.0 thousand, the Hyperion project for Euro 327.2 thousand and capitalisation of the project for rationalisation and simplification of the *Sales & Distribution* processes for Euro 459.3 thousand, net of amortization accrued during the year.

Revaluations and writedowns over the year

For the purposes of application of article 2427, 3-bis), no writedowns of intangible fixed assets were carried out.

TANGIBLE FIXED ASSETS

Tangible fixed assets are broken down as follows:

	<u>Values at</u> <u>31/12/2009</u>			<u>Values at</u> <u>31/12/2010</u>		
	<u>Net book</u> <u>value</u>	<u>Historical</u> <u>cost</u>	<u>Revaluations</u>	<u>Accumulated</u> <u>depreciation</u>	<u>Net book</u> <u>value</u>	<u>Change</u>
Land and buildings	42,467,690	53,703,485	1,187,576	9,852,063	45,038,998	2,571,308
Plant and machinery	21,068,858	61,290,456	4,210,272	44,291,992	21,208,735	139,877
Industrial and commercial equipment	13,120,713	43,016,568	0	26,961,046	16,055,521	2,934,808
Other assets	4,636,058	26,477,066	0	21,420,074	5,056,992	420,934
Tangible fixed assets under construction and advances	<u>2,346,521</u>	<u>4,843,449</u>	<u>0</u>	<u>0</u>	<u>4,843,449</u>	<u>2,496,929</u>
Total tangible fixed assets	83,639,840	189,331,024	5,397,848	102,525,175	92,203,697	8,563,857

Increases during the year mainly regarded the following:

- land and buildings: mainly comprises the Euro 873.3 thousand cost sustained by the Parent Company for capitalisation of internal works on buildings, in particular for installation of the factory floor and completion of the restyling work on the offices of Palazzina C. The item also includes a Euro 2,884.7 thousand increase following recognition of the financial leases stipulated by MITACA Srl during the year;
- plant and machinery: this item increased predominantly as a result of Euro 4,216.0 thousand in costs sustained by the Parent Company for capitalisation of internal works on the production units, particularly for completion and operation of the filling and assembly systems in the Metodo Iperespresso packaging department, and Euro 448.7 thousand for new acquisitions by MITACA Srl for capsule production systems. The item also includes recognition of the leasing contracts stipulated by MITACA Srl using the financial method, for Euro 628.3 thousand.
- industrial and commercial equipment: this item increased by Euro 2,807.6 thousand as a result of the Parent Company's purchase of professional coffee machines, provided on a loan for use and/or lease basis to clients, and Euro 1,315.4 thousand for the purchase of moulding machines for coffee machine production by the Parent Company. The item also increased following the purchase of coffee equipment by the French subsidiary (Euro 97.2 thousand), the US subsidiary (Euro 807.7 thousand), the Canadian subsidiary (Euro 60.6 thousand) and MITACA Srl (Euro 718.4 thousand), as well as the recording of leasing contracts stipulated during the year by the Parent Company according to the financial method (IAS 17) for Euro 4,072.0 thousand;
- other assets: these refer to investments mainly carried out by the Parent Company for electronic equipment (Euro 155.2 thousand), office furniture and fittings (Euro 339.0 thousand), laboratory equipment (Euro 85.4 thousand), trade fair and event furnishings (Euro 265.8 thousand), artworks (Euro 23.2 thousand), lightweight constructions (Euro 396.0 thousand) and Concept Bar furnishings (Euro 9.8 thousand). The increase also includes purchases by the US subsidiary for electronic equipment (Euro 32.7 thousand) and vehicles (Euro 32.7 thousand), by the Dutch subsidiary for vehicles (Euro 21.0 thousand) and, finally, by MITACA Srl for office furniture and fittings (Euro 19.6 thousand).

The item “*tangible fixed assets under construction and advances*” refers to uncompleted works of the Parent Company for Euro 4,702.0 thousand, particularly with regard to expansion and upgrading of the existing production units and moulding machines, as well as the purchase of additional buildings, while the amount of Euro 141.5 thousand regards illycaffè North America Inc.

The table below provides the Parent Company's values for the assets stated in the balance sheet at 31st December 2010 and which were revalued in prior years in compliance with the law.

- Land and buildings		
- value at cost	Euro	45,757,409
- revaluation under Law 72/83	Euro	465,564
- revaluation under Law 413/91	Euro	328,132

	Euro	46,551,105
 - Plant, machinery and tools		
- value at cost	Euro	58,603,798
- revaluation under Law 342/00	Euro	4,210,272

	Euro	62,814,070

Grants to the capital account

Group companies did not receive any grants to the capital account for the year ended 31/12/2010.

Grants obtained in prior years were recorded in the income statement on an accrual basis according to the asset's useful life.

The grant recorded in the income statement by the Parent Company amounts to Euro 209.3 thousand.

Obtainment of the grants pursuant to Law 488/1992 involved the following restrictions regarding use of the assets, based on Temporary Concession Decree 101548 of 12/02/02:

article 3 b): “*the company benefiting from the facilities is required not to remove the subsidised tangible or intangible fixed assets from their intended use before 5 years from the date in which they enter service*”.

Non-compliance with these restrictions allows the subsidising authority to claim repayment of the subsidy.

FINANCIAL FIXED ASSETS

Equity investments

Equity investments are broken down as follows:

	<u>Balance at</u> <u>31/12/2010</u>	<u>Balance at</u> <u>31/12/2009</u>	<u>Change</u>
Subsidiaries			
- illycaffè Sud America Ltda	2,048,836	0	2,048,836
	<i>2,048,836</i>	<i>0</i>	<i>2,048,836</i>
Associates			
- Dachan Espressamente illy (China) Ltd.	95,998	439,998	(344,000)
- Cafè Espressamente illy (HK) Ltd.	219,584	212,058	7,526
- Espressamente illy Taiwan Ltd.	56,120	120,130	(64,009)
	<i>371,702</i>	<i>772,185</i>	<i>(400,483)</i>
Other companies			
- CAAF Interreg.Dipendenti Srl	5	5	0
- Qualicaf Trieste Srl	1,420	1,420	0
- Kafea Emporiki Techniki S.A.	89,000	89,000	0
- OCM Srl	2,169	2,169	0
- CONAI	1,605	1,605	0
- ERP Italia Srl - RAEE	4,000	4,000	0
- Espresso Caffè Vertrieb GmbH	87,278	87,278	0
- Illycaffè Shanghai	16,523	16,523	0
- Illycaffè Thalwil AG	3,162,840	3,162,840	0
- Magia Tavola Italiana Srl	28,000	0	28,000
- Euro Foods Brands	59,139	59,139	0
- Consorzio E.S.E. e Conai	3,533	3,533	0
	<i>3,455,513</i>	<i>3,427,513</i>	<i>28,000</i>
	<hr/> 5,876,051	<hr/> 4,199,698	<hr/> 1,676,353

In 2010, the Parent Company participated in establishing the company **Magia Tavola Italiana Srl**, with headquarters in Milan, for development of the retail food segment, and established the subsidiary company **illycaffè Sud America Ltda** with headquarters in Sao Paolo (Brazil), replacing the previous Brazilian distributor. The latter company was not consolidated on a line-by-line basis for 2010, in accordance with art. 28 of the Legislative Decree, clause 2 c), but was valued using the equity method. This valuation resulted in the recording of a writedown for Euro 488.6 thousand.

Associates Dachan espressamente illy Ltd and Espressamente illy Taiwan Ltd were written down in 2010 in order to align their book values to their expected realisable values.

Note that the Parent Company has agreements in place with the shareholders of illycaffè AG (Thalwil) relating to the acquisition of two shares by 3rd October 2012 for 160,000 Swiss francs, and a commitment to buy 134 shares at a price calculated according to whether the option is exercised before or after 31st December 2011.

Investments in other companies did not undergo any writedowns due to impairment, and no “reversal of impairment” were carried out.

Receivables

This item includes medium and long-term receivables and was broken down as follows at the end of the year:

	Expiry in years					
	<u>Balances at 31/12/2009</u>			<u>Balances at 31/12/2010</u>		
	<u>Total</u>	<u>Total</u>	<u>Within 1</u>	<u>from 1 to 5</u>	<u>Over 5</u>	<u>Change</u>
Financial receivables from subsidiaries	0	0	0	0	0	0
Financial receivables from associates	103,972	104,453	0	104,453	0	481
Financial receivables from joint ventures	1,168,976	1,365,919	24,608	1,341,311	0	196,943
Receivables from others	<u>1,855,537</u>	<u>1,702,779</u>	<u>656,103</u>	<u>1,044,872</u>	<u>1,803</u>	<u>(152,758)</u>
Total receivables	3,128,485	3,173,151	680,711	2,490,636	1,803	44,666

“Receivables from associates” (Euro 104.0 thousand) represents the non-interest bearing loan granted on 28th October 2009 by the Parent Company to associate Cafè de Espressovente Ltd. The increase refers to the interest accrued during the year.

The item “Receivables from others” consists of collateral amounts for Euro 560.9 thousand (mainly: Euro 164.1 thousand from the Parent Company, Euro 171.8 thousand from illycaffè North America inc., Euro 39.5 thousand from illycaffè France SAS, Euro 134.0 thousand from Ilko Coffee International Srl and Euro 47.6 thousand from Espressovente France SAS), the Parent Company’s receivable for dividends resolved in 2010 by Kafea Emporiki Techniki (Euro 271.6 thousand), receivables from customers for financing activities by Bar Finance International SpA (Euro 790.3 thousand) and loans granted by illycaffè Nederland B.V. for the Horeca project for a total of Euro 100.0 thousand. The item “Financial receivables from joint ventures” contains a reclassification of receivables from joint ventures for the portion not eliminated by the consolidation transactions.

Treasury shares

The amount of Euro 285.6 thousand represents 105,000 treasury shares with a nominal value of Euro 6, acquired on a long-term basis against possible future share swap transactions with third parties. In accordance with the legal provisions, the percentage falls within the limit set by articles 2357 et seq. of the Italian Civil Code, and a restricted reserve for the same amount has been established under shareholders’ equity.

CURRENT ASSETS

INVENTORIES

This item is broken down as follows at year-end:

	<u>Balance at 31/12/2010</u>	<u>Balance at 31/12/2009</u>	<u>Change</u>
Raw materials	44,379,799	41,175,703	3,204,096
Semi-finished products	190,981	180,522	10,459
Finished products	25,682,941	24,236,225	1,446,717
Advances	<u>1,955,153</u>	<u>1,723,263</u>	<u>231,890</u>
Total inventories	72,208,875	67,315,713	4,893,162

The increase of Euro 4,893.2 thousand over the prior year is mainly due to the increase in the cost of raw materials.

Inventories are stated net of an obsolescence provision allocated by the various companies of the Group for slow-moving or obsolete assets, for a total of Euro 1,572.0 thousand.

In 2010, the Parent Company carried out Euro 494.2 thousand in writedowns on its inventory and used Euro 1,015.9 thousand of the provision. Furthermore, MITACA Srl wrote down its inventory for Euro 146.0 thousand, while Magic L'Espresso used the previously established fund for Euro 7.9 thousand.

RECEIVABLES

Trade receivables

This item was broken down as follows at the end of the year:

	<u>Balances at 31/12/2009</u>		<u>Balances at 31/12/2010</u>			
	<u>Net value</u>	<u>Gross value</u>	<u>Bad debt provision</u>	<u>Fund Trade discount</u>	<u>Net value</u>	<u>Change</u>
Trade receivables within 12 months	58,320,210	65,451,019	3,535,516	1,532,754	60,382,749	2,062,539
Trade receivables beyond 12 months	<u>240,734</u>	<u>315,380</u>	<u>0</u>	<u>0</u>	<u>315,380</u>	<u>74,646</u>
	58,560,944	65,766,399	3,535,516	1,532,754	60,698,129	2,137,185

Trade receivables are valued according to their expected realisable value.

The increase of Euro 2,137.2 thousand over the prior year is related to the increase in Group sales over the year.

Trade receivables beyond 12 months, amounting to Euro 315.4 thousand, comprise Euro 191.5 thousand for an agreement stipulated by the Spanish branch with a client and Euro 123.9 thousand for a receivable of the Parent Company for disposal of the business division of Via delle Torri in Trieste.

The item “Provision for trade discounts”, amounting to Euro 1,532.8 thousand, comprises Euro 722.6 thousand in provisions allocated by the Parent Company and Euro 810.2 in provisions allocated by subsidiaries. The bad debt provision includes Euro 2,836.1 thousand relative to the Parent Company and Euro 699.4 thousand relative to its subsidiaries.

Receivables from subsidiaries

The amount of Euro 220.0 thousand refers to the receivable due to the Parent Company from illycaffè Sud America Ltda as at the end of the year, for Euro 76.2 thousand, and to the Euro 143.8 thousand receivable of Experimental Agricola do Brasil from illycaffè Sud America Ltda.

Receivables from parent companies

Receivables from parent companies (Euro 309.8 thousand) includes receivables due to Bar Finance International (Euro 45.5 thousand) and to the Parent Company (Euro 226.9 thousand) from Gruppo Illy SpA, following the option for national tax consolidation exercised in 2005. This item also includes trade receivables from Gruppo Illy SpA to the Parent Company for Euro 37.4 thousand.

Receivables from others

This item is broken down as follows:

	Balance at 31/12/2009	Balance at 31/12/2010		Total	Change
		Within 1	From 1 to 5		
Financial receivables	289,963	58,345	328,204	386,549	96,586
Receivables for advances on supply of services	2,266	236,721	0	236,721	234,454
Others	<u>3,121,168</u>	<u>1,230,029</u>	<u>144,707</u>	<u>1,374,736</u>	<u>-1,746,433</u>
Total	3,413,397	1,525,094	472,911	1,998,005	-1,415,392

The item “Others” includes the residual portion of a receivable due to the Parent Company from the Ministry of Productive Activities for Euro 532.6 thousand, regarding a grant for a plant connected to an investment programme of Euro 17,507.3 thousand, and a receivable of the Parent Company from the tax authorities for Euro 294.4 thousand regarding payments made following a tax audit on the 2000 fiscal year that has become due following the positive conclusion of litigation.

The item “Financial receivables” consists of loans granted by the Parent Company, illycaffè North America inc., illycaffè France SAS and Magic L’Espresso SL to employees and agents.

Tax receivables

The amount of Euro 2,470.1 thousand mainly refers to the Parent Company for Euro 1,528.5 thousand, regarding the tax credit on R&D for Euro 919.6 thousand and the VAT credit for Euro 608.9 thousand. It also includes the VAT credit of the French subsidiary (Euro 116.7

thousand), the VAT credit of Ilko Coffee International Srl (Euro 121.1 thousand), the tax credit of Ilko Hellenich Partners GmbH (Euro 46.0 thousand), the VAT credit of MITACA Srl (Euro 322.7 thousand), the VAT credit of Magic L'Espresso SL (Euro 61.2 thousand) and the tax credit of Porto de Santos and Experimental Agricola do Brasil (Euro 71.8 thousand and Euro 65.2 thousand, respectively).

Deferred tax assets

Deferred tax assets were recognised, as it is likely that, during the years in which the temporary deductible differences for which the deferred tax assets were booked are reversed, the taxable income will be equal to or greater than the differences to be offset.

The amount of Euro 5,934.6 thousand refers to the Parent Company (Euro 3,006.7 thousand), illycaffè North America Inc. (Euro 1,038.5 thousand), MITACA Srl (Euro 140.8 thousand), Ilko Coffee International Srl (Euro 318.2 thousand), Magic L'Espresso (Euro 237.4 thousand) and to the consolidation transactions for Euro 1,170.4 thousand.

	31/12/2010			31/12/2009		
	Amount of temporary differences	Tax effect	Rate	Amount of temporary differences	Tax effect	Rate
Writedown of accounts receivable	2,895,334	805,270	31,4%	1,420,397	390,609	31.4%
Depreciation of tangible assets (portion of grants)	0	0	31,4%	450,209	141,365	31.4%
Amortization of trademarks	1,191,977	343,289	31,4%	929,597	291,894	31.4%
Amortization of goodwill	1,929,318	556,459	31,4%	1,482,332	465,453	31.4%
Foreign exchange losses (unrealised)	0	0	27,5%	0	0	27.5%
Charges arising from buyer incentives operations	313,524	86,402	31,4%	364,210	100,341	31.4%
Other provisions not provided for by tax laws	2,624,562	773,034	31,4%	3,965,820	1,134,630	31.4%
4/15 entertainment expenses	7,821	2,286	31,4%	22,960	7,212	31.4%
Directors' remuneration	1,600,000	440,000	27,5%	1,219,500	335,363	27.5%
Total deferred tax assets, Parent Company	10,561,996	3,006,740		9,855,025	2,866,867	
Deferred tax assets deriving from tax losses and other temporary differences of Ilko Coffee International Srl		318,200			391,162	
Deferred tax assets deriving from tax losses and other temporary differences of MITACA Srl		140,775			28,820	
Deferred tax assets deriving from tax losses and other temporary differences of Illy espresso Canada Inc.		16,518			14,546	
Deferred tax assets deriving from tax losses and other temporary differences of Magic L'Espresso SL		237,379			264,443	
Deferred tax assets deriving from tax losses and other temporary differences of Bar Finance International Spa		5,918			0	
Deferred tax assets deriving from tax losses and other temporary differences of Illy Real Estate Srl		195			0	
Deferred tax assets deriving from tax losses and other temporary differences of Illycaffè North America Inc.		1,038,518			1,162,730	
Deferred tax assets arising from consolidation adjustments		1,170,397			929,620	
Total consolidated deferred tax assets		5,934,640			5,658,188	

CURRENT FINANCIAL ASSETS

This category includes the 100% interest in subsidiary **Eltrade Srl** for Euro 824.0 thousand, acquired in 2005 by the Parent Company in order to obtain a building adjacent to the factory. This investment is held for sale and, therefore, not consolidated on a line-by-line basis.

The item “Other securities” includes assets of Experimental Agricola do Brasil and Porto de Santos for Euro 416.5 thousand and Euro 1,250.4 thousand, respectively, for investments in highly liquid securities.

CASH AND CASH EQUIVALENTS

This item is broken down as follows:

	<u>Balance at</u> <u>31/12/2010</u>	<u>Balance at</u> <u>31/12/2009</u>	<u>Change</u>
Bank and postal deposits	11,212,112	8,780,284	2,431,827
Cheques	0	0	0
Cash in hand	<u>15,966</u>	<u>33,433</u>	<u>(17,467)</u>
	11,228,078	8,813,718	2,414,361

The balance represents cash and cash equivalents at year-end.

ACCRUED INCOME AND PRE-PAID EXPENSES

This item is broken down as follows at 31st December 2010:

	<u>Balance at</u> <u>31/12/2010</u>	<u>Balance at</u> <u>31/12/2009</u>	<u>Change</u>
<u>Accrued income</u>			
- Interest rate swaps	0	10,080	-10,080
- Other	<u>26,902</u>	<u>77,161</u>	<u>-50,258</u>
Total accruals	26,902	87,241	-60,339
<u>Pre-paid expenses</u>			
- Insurance premiums	96,206	88,604	7,602
- IT system assistance expenses	0	11,716	-11,716
- Information expenses	0	39,896	-39,896
- Software licences	130,424	68,084	62,340
- Telephone costs	0	0	0
- Advertising expenses	155,766	11,909	143,857
- Royalties and promotion contributions	622,960	1,017,533	-394,574
- Other	<u>152,786</u>	<u>546,544</u>	<u>-393,759</u>
Total prepaid expenses	1,158,141	1,784,286	-626,145
Total accruals and prepaid expenses	1,185,044	1,871,527	-686,483

The Parent Company’s accruals and deferrals due beyond five years at 31st December 2010 amounted to Euro 120.0 thousand.

COMMENTS ON THE MAIN LIABILITY ITEMS

SHAREHOLDERS' EQUITY

Comments on the main shareholders' equity items and relative changes are provided below. For a detailed analysis of the changes in shareholders' equity, see the relative annex to these Notes.

SHARE CAPITAL

Share capital at 31st December 2010, fully subscribed and paid-in, consists of 1,050,000 ordinary shares with a nominal value of Euro 6.00 each, equal to a total of Euro 6,300.0 thousand.

The statement of reconciliation between shareholders' equity and profit of the Parent Company for the year and consolidated shareholders' equity and profit at 31st December 2010 is provided below.

RECONCILIATION BETWEEN SHAREHOLDERS' EQUITY AND PROFIT OF ILLYCAFFE' SPA AND CONSOLIDATED SHAREHOLDERS' EQUITY AND PROFIT

	<i>Amounts in Euro/000</i>	
	<u>Shareholders' equity</u>	<u>Income statement</u>
Parent Company	103,013	12,170
- Interest in shareholders' equity and profits of consolidated companies net of the book value of investments	(11,987)	(1,131)
- Elimination of intra-Group dividends	0	0
- Effect of financial leasing	(120)	(172)
- Elimination of intra-Group sales of assets	(69)	(69)
- Effect of elimination of writedowns of receivables in consolidated companies	421	30
- Elimination of writedowns of equity investments and receivables in consolidated companies	0	1,514
- Elimination of profits on sales to subsidiaries included in inventories, net of the relative tax effect	(3,706)	(500)
- Elimination of intra-Group receivables/payables	(38)	(169)
- Elimination of intra-Group costs and revenues	0	(71)
- Adjustment of the value of unconsolidated investments to shareholders' equity	(502)	(43)
- Effect of allocation of greater values resulting from reversal of the consolidated equity investments with respect to shareholders' equity	7,599	(560)
- Effect of transfer of business division	(44)	84
- Effect of incorporation of the German branch	(40)	40
- Amortization of <i>Fond du Commerce</i> of <i>Espressamente France</i>	(191)	(48)
Consolidated shareholders' equity and result for the year (including minority interest)	94,336	11,075
Minority interest	596	(102)
Consolidated Group shareholders' equity and result for the year	94,932	10,973

REVALUATION RESERVES

Revaluation reserves recorded by the Parent Company at 31st December 2010 amount to Euro 6,308.9 thousand and comprise the positive balances of monetary revaluations following application of the following laws:

	<u>Balance at</u> <u>31/12/2010</u>	<u>Balance at</u> <u>31/12/2009</u>
Law 72, 19.3.83	556,121	556,121
Law 413, 30.12.91	284,024	284,024
Law 342, 21.11.00	<u>5,468,818</u>	<u>5,468,818</u>
	6,308,963	6,308,963

The revaluation reserve pursuant to Law 413/1991 is net of the substitute tax of Euro 54.2 thousand.

The revaluation reserve pursuant to Law 342/2000 is net of the substitute tax of Euro 1,282.9 thousand.

RESERVE FOR TREASURY SHARES

The reserve for treasury shares at 31st December 2010 is equal to the value of the Parent Company's shares recorded under Financial fixed assets, pursuant to art. 2357 of the Italian Civil Code.

This reserve is restricted as long as the shares are held by the company.

OTHER RESERVES

This item is broken down as follows:

	<u>Balance at</u> <u>31/12/2010</u>	<u>Balance at</u> <u>31/12/09</u>	<u>Change</u>
- Extraordinary reserve	74,279,690	72,878,931	1,400,759
- Reserve for grants to the capital account	797,731	797,731	0
- Translation reserve	<u>(2,906,548)</u>	<u>(3,690,713)</u>	<u>784,165</u>
Total other reserves	72,170,873	69,985,949	2,184,924

The “Extraordinary reserve” increased by Euro 1,400.8 thousand during 2010, following the allocation of 2009 profits by the Parent Company.

The “Reserve for grants to the capital account”, pursuant to art. 55 of Presidential Decree 917, represents 50% of the grants disbursed in prior years, as required by the Art. 55 of the Consolidated Income Tax Law in force at the time with respect to capital account grants.

PROFIT FOR THE YEAR

Profit for the year 2010 amounts to Euro 10,972.7 thousand, for an increase of Euro 5,763.2 thousand compared to the prior year.

PROVISIONS FOR RISKS AND CHARGES

This item is broken down as follows:

	<u>Balance at</u> <u>31/12/2010</u>	<u>Balance at</u> <u>31/12/2009</u>	<u>Change</u>
Provisions for taxation, including deferred:			
- deferred taxes	335.185	2.899.238	-2.564.054
- pending tax litigation	895.000	710.774	184.226
	<u>1.230.185</u>	<u>3.610.012</u>	<u>-2.379.828</u>
Other provisions:			
- agents' leaving indemnity	1.961.102	1.777.886	183.216
- product warranty	545.585	685.431	-139.846
- returned goods	152.127	181.270	-29.143
- buyer incentives on quantities	379.686	619.432	-239.746
- other funds	<u>1.411.250</u>	<u>1.683.036</u>	<u>-271.785</u>
	<u>4.449.750</u>	<u>4.947.053</u>	<u>-497.304</u>
Total provisions for risks and charges	5.679.934	8.557.066	-2.877.131

The item “*Provision for deferred taxes*” refers exclusively to deferred tax liabilities, while deferred tax assets are recorded under “Deferred tax assets”. The decrease in the provision for deferred taxes is due to the use of Euro 2,476.4 thousand by the Parent Company, of which Euro 2,435.3 thousand regarding reversal of the accelerated depreciation/amortization due to tax exemptions carried out during the year through payment of a substitute tax. Furthermore, consolidation transactions accounted for Euro 332.7 thousand, particularly with respect to the tax impact of elimination of inter-company profit (with a positive effect of Euro 594.1 thousand), to the recognition of leasing contracts by MITACA for Euro 54.9 thousand and, following allocation of the goodwill arising from the writeback of the equity investment with illy Real Estate Srl and Enterprise Srl, to an increase in the provision of Euro 855.9 thousand and Euro 121.2 thousand, respectively.

	31/12/2010			31/12/2009		
	Amount of temporary differences	Tax effect	Rate	Amount of temporary differences	Tax effect	Rate

Accelerated depreciation	0	0	31.4%	8,119,409	2,435,256	31.4%
Capital gains in instalments	49,624	13,767	31.4%	33,708	9,798	31.4%
Dividends stated as accrued	89,837	24,705	27.5%	121,060	36,310	27.5%
Total Parent Company deferred taxes	139,461	38,472		8,274,177	2,481,364	
Deferred taxes arising from consolidated companies		-35,956			0	
Deferred taxes arising from consolidation adjustments		332,669			417,877	
Total consolidated deferred taxes		335,185			2,899,237	

The “*Provision for pending tax litigation*” increased over the year following a provision made by the Parent Company for Euro 395.0 thousand as an adjustment to the provision for tax risks, net of Euro 210.8 thousand in uses.

The “*Provision for agent’s severance indemnities*” of Euro 1,961.1 thousand was fully allocated by the Parent Company to cover the indemnity payable to agents in the event of termination of the agency relationship upon initiative of the company or in cases of death, permanent disability or retirement of the agent. This indemnity is not due in the event of termination of the agency relationship upon initiative of the agent or for just cause. The allocation is made in accordance with the collective agreements, referred to in the contracts stipulated with the agents.

The “*Provision for returns*”, amounting to Euro 152.1 thousand, refers to the Parent Company and is the best estimate of the economic impact of returns from the beginning of 2011 up to the date of approval of the draft financial statements, regarding products delivered during 2010.

The “*Product warranty provision*” of Euro 545.6 thousand is the amount allocated by the Parent Company and by MITACA Srl to cover sales of espresso machines under guarantee, for Euro 532.1 thousand and Euro 13.5 thousand, respectively.

“*Other provisions*”, amounting to Euro 1,411.2 thousand, mainly refer to risks recorded in the financial statements of the Parent Company for Euro 1,328.2, net of eliminations upon consolidation. The residual amount of Euro 83.0 thousand comprises provisions made by the individual subsidiaries: Euro 22.5 thousand by Illycaffè Nederland B.V., Euro 45.5 thousand by Espressamente France SAS and Euro 15.0 thousand by MITACA Srl for potential liabilities arising during the year.

The “*Buyer incentives on quantities provision*”, at Euro 379.7 thousand, represents the value of incentives accrued and requested by clients registered with the Parent Company’s *illy lovers programme* still to be disbursed at 31st December 2010.

EMPLOYEE SEVERANCE INDEMNITY RESERVE

Changes in the reserve during the year are outlined below:

Balance at 1/1/2010	3,947,534
Amount accrued and written to the income statement	145,138
Amounts paid out during the year	<u>(369,645)</u>
Balance at 31/12/2010	3,723,027

The balance represents the current obligation of Group companies at 31/12/2010 towards its employees at year-end, net of any advances paid.

PAYABLES

The various components of and changes in this category during the year are outlined below.

Amounts due to banks

	<u>Balance at</u> <u>31/12/2009</u>		<u>Balance at</u> <u>31/12/2010</u>			
	<u>Total</u>	<u>Within 1</u>	<u>Expiry</u> <u>in years</u> <u>From 1 to 5</u>	<u>Over 5</u>	<u>Total</u>	<u>Change</u>
Current account overdrafts	4,733,736	479,824	0	0	479,824	(4,253,912)
Medium/long-term loans	94,353,038	18,064,402	68,301,593	10,689,713	97,055,708	2,702,670
Total	99,086,774	18,544,226	68,301,593	10,689,713	97,535,532	(1,551,242)

The terms of the medium/long-term loans are summarised below:

- illycaffè SpA

Medium/long-term payables to banks	Residual amount	Opening date	Maturity	Pre-amortization	Instalments
Loan 1	15,000,000	11/10/2010	31/12/2015	2.5 months	Half-yearly
Loan 2	15,675,384	28/12/2007	31/12/2017	6 months	Half-yearly
Loan 3	1,000,000	31/07/2006	31/07/2011		Half-yearly
Loan 4	20,000,000	29/12/2010	31/12/2014		Half-yearly
Loan 5	17,714,286	20/06/2008	31/12/2018	18 months	Half-yearly
Loan 6	5,250,000	10/03/2009	30/06/2014	6 months	Half-yearly
Loan 7	7,000,000	01/12/2010	31/12/2015		Half-yearly
Loan 8	5,000,000	12/07/2010	30/06/2015	18 months	Half-yearly
Loan 9	7,000,000	28/07/2010	31/12/2027	30 months	Half-yearly
TOTAL	93,639,670				

Loan 9 is secured by a second mortgage on the property complex of the “Distripark” logistics hub.

- Illy Real Estate Srl

Medium/long-term payables to banks	Residual amount	Opening date	Maturity	Pre-amortization	Instalments
Loan 10	187,358	31/12/2004	30/06/2014		Half-yearly
Loan 11	78,947	31/07/2003	31/01/2013		Half-yearly
Total Illy Real Estate mortgages	266,305				

Payables to banks decreased by Euro 1,551.2 thousand. The decrease is attributable to higher loan repayments made during the year compared to the opening of new mortgages by the Parent Company and Illy Real Estate Srl.

Mortgages opened in 2010 amounted to Euro 54,000.0 thousand, with repayments by the Parent Company of Euro 39,585.0 thousand for instalments due and for the transfer of several short-term loans to medium/long-term.

Several medium/long-term loans stipulated over the years include covenants linked to the results of the consolidated financial statements at 31st December of each year. If these covenants are not respected, banks are entitled to demand advance repayment of the loans disbursed for the residual amount. Based on the financial statements of the Parent Company and on the Consolidated Financial Statements at 31st December 2010, the equity ratios indicated in the loan agreements have been respected.

Amounts due to other financial institutions

This item is broken down as follows:

	<u>Balance at</u> <u>31/12/2009</u>		<u>Balance at</u> <u>31/12/2010</u>			
			<u>Expiry</u> <u>in years</u>			
	<u>Total</u>	<u>Within 1</u>	<u>From 1 to 5</u>	<u>Over 5</u>	<u>Total</u>	<u>Change</u>
FRIE	8,299,990	1,580,754	4,742,263	0	6,323,017	-1,976,973
Other financial institutions	7,367,215	3,319,032	7,762,586	0	11,081,618	3,714,403
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Total	15,667,205	4,899,786	12,504,849	0	17,404,635	1,737,430

The item “Amounts due to other financial institutions” relates to FRIE loan no. 4043810 for Euro 13,436.4 thousand (Euribor 6-month floating rate reduced by 20%, maturity 2014), taken over by the Parent Company in 2006 following acquisition of the Distripark business division. The loan is secured by a property mortgage. It decreased by Euro 1,580.8 thousand during the year following payment of the instalment due.

Furthermore, the Parent Company fully repaid FRIE loan no. 4000112 in 2010 (3.5% fixed annual rate), paying the last instalment of Euro 360.1 thousand.

The item “*Other financial institutions*” includes financial payables on leased tangible fixed assets accounted for in the consolidated financial statements using the financial method (IAS

17) and the residual portion of loans of the joint ventures Ilko Coffe International Srl and Ilko Hellenich Partners GmbH not eliminated following application of the proportional consolidation method and restated under this item as required by Accounting Standard 17.

Trade payables

“Trade payables” are stated net of trade discounts, whereas cash discounts are recorded upon payment. The nominal value of these payables has been adjusted in the case of returns or rebates (invoicing adjustments), to the extent agreed upon with the counterpart.

Amounts due to parent companies

This item includes the Parent Company's IRES debt for Euro 1.766.7 thousand.

Amounts due to tax authorities

	<u>31/12/2010</u>	<u>31/12/2009</u>	<u>Change</u>
Income taxes for the year	1,533,446	408,482	1,124,964
Withholding taxes payables	-2	0	-2
VAT payables	104,553	502,643	-398,090
IRPEF (personal income tax)	1,430,367	1,370,866	59,501
Other taxes	<u>6,532</u>	<u>35,647</u>	<u>-29,115</u>
	3,074,896	2,317,638	757,257

Amounts due to social security institutions

This item refers to year-end payables due from Group companies and employees for salaries and wages for December 2010, in addition to social security contributions for the Parent Company's sales network.

Other payables

This item is broken down as follows:

	<u>Balance</u> <u>at 31/12/2010</u>	<u>Balance</u> <u>at 31/12/2009</u>	<u>Change</u>
Employees payables	7,269,547	4,836,876	2,432,671
Goods to deliver payables	172,841	20,056	152,785
Derivatives payables	352,529	992,118	-639,589
Other	<u>266,350</u>	<u>153,613</u>	<u>112,737</u>
	8,061,267	6,002,662	2,058,605

The Euro 2,432.7 thousand increase in item “Employees payables” refers to the Parent Company (Euro 1,564.1 thousand), to the Dutch subsidiary (Euro 55.0 thousand), to the US subsidiary illycaffè North America Inc. (Euro 693.9 thousand) and to MITACA Srl (Euro 102.6 thousand).

Amounts falling due beyond the next period

Finally, the breakdown of payables due beyond the next period, subdivided by expiry, is outlined below:

	Expiry	in	years
	<u>from 1 to 5</u>	<u>beyond 5</u>	<u>total</u>
Banks	68,301,593	10,689,713	78,991,306
Other financial institutions	<u>12,504,849</u>	<u>0</u>	<u>12,504,849</u>
	80,806,442	10,689,713	91,496,155

ACCRUED LIABILITIES AND DEFERRED INCOME

This item is broken down as follows at 31st December 2010:

	<u>Balance</u>	<u>Balance</u>	<u>Change</u>
	<u>at 31/12/2010</u>	<u>at 31/12/2009</u>	
<u>Accrued liabilities</u>			
Interest expense	33,856	191,446	(157,590)
interest rate swaps	15,528	58,686	(43,158)
Other	<u>62,556</u>	<u>96,881</u>	<u>(34,325)</u>
Total accruals	111,940	347,013	(235,072)
<u>Deferred income</u>			
Grants	435,183	596,856	(161,674)
Interest income on loans	0	0	0
Other	<u>88,811</u>	<u>214,398</u>	<u>(125,587)</u>
Total deferrals	523,994	811,254	(287,260)
Total accruals and deferrals	635,935	1,158,267	522,332

The item “Grants” refers to the Parent Company and includes the capital grants on investments disbursed in past years by Fondo Trieste and the grant by the Ministry of Productive Activities for a plant, of which Euro 193.0 thousand with duration of over 5 years.

MEMORANDUM ACCOUNTS**Guarantees provided in favour of third parties**

The amount of Euro 206.0 thousand refers to the guarantee provided by Ilko Coffee International Srl in favour of a company executive in connection with a residential property lease agreement (Euro 26.0 thousand) and to the guarantee provided by MITACA Srl for a loan (Euro 180.0 thousand).

Guarantees received from third parties

This item consists of guarantees provided to the Parent Company for a total of Euro 193.6 thousand, as highlighted in the table below:

Guarantor	Guaranteed party	Amount
Cassa di Risparmio FVG	Autostrade Viacard	3,099
Banca Nazionale del Lavoro	Ministry of Economic Development, "Caffè con l'arte" incentives event	105,000
Unicredit Banca	Ministry of Economic Development, events with various incentives	85,518
TOTAL		193,617

Commitments towards leasing companies

At 31/12/2010 there were property lease commitments relating to the US subsidiary (Euro 611.8 thousand), the Dutch subsidiary (Euro 379.5 thousand) and the Canadian subsidiary (Euro 4.8 thousand).

COMMITMENTS RELATING TO OFF-BALANCE SHEET TRANSACTIONS**Fair value of financial instruments****Interest rate swaps**

Pursuant to art. 38, letter o-ter) of Legislative Decree 127/1991, the fair value of the Interest Rate Swaps is indicated below. The calculation, provided directly by the issuing bank, is based on standard price calculation methods used by banks.

Derivative	Trade date	Maturity date	Currency	Notional at 31/12/2010	Mark to market at 31/12/2010
IRS	22/11/2010	31/12/2015	EUR	15,000,000	-19,146
IRS	02/03/2006	06/03/2011	EUR	10,000,000	-98,360
IRS	03/09/2010	30/06/2015	EUR	5,000,000	8,238
IRS	27/10/2006	29/07/2011	EUR	1,000,000	-27,757
IRS	02/04/2007	04/04/2011	EUR	5,000,000	-79,159
IRS	06/06/2006	08/06/2011	EUR	5,000,000	-68,347
IRS	06/06/2006	08/06/2011	EUR	5,000,000	-56,274
IRS	22/12/2009	30/12/2016	EUR	17,714,286	-839,863
TOTAL				63,714,286	-1,180,668

The overall fair value for this year is negative for Euro 1,180.7 thousand, of which Euro 302.1 thousand recorded among other payables in connection with the classification of these contracts as derivatives. At 31st December 2009, the overall fair value was negative for Euro 1,789.0 thousand, of which Euro 992.1 thousand representing derivatives. The reduction in negative fair value of the latter resulted in the recognition of Euro 690.0 thousand in financial income in the Parent Company's income statement.

Currency hedging transactions

Several currency hedging transactions were carried out during the year on advance payments in Brazilian Real carried out in 2010 for the 2011 procurement of green coffee.

Type of contract	Trade date	Maturity date	Notional R\$	Mark to market at 31/12/2010
Non deliverable forward	18/05/2010	29/07/2011	5,000,000	145,891
Non deliverable forward	18/05/2010	30/08/2011	5,000,000	148,690
Non deliverable forward	18/05/2010	30/09/2011	5,000,000	144,413
Non deliverable forward	18/05/2010	31/10/2011	5,000,000	144,307
Foreign Exchange	18/05/2010	29/07/2011	5,000,000	123,522
Foreign Exchange	18/05/2010	31/08/2011	5,000,000	123,614
Foreign Exchange	18/05/2010	30/09/2011	5,000,000	123,479
Foreign Exchange	18/05/2010	03/10/2011	5,000,000	126,722
Non deliverable forward	18/05/2010	29/07/2011	5,000,000	135,376
Non deliverable forward	18/05/2010	31/08/2011	5,000,000	131,020
Non deliverable forward	18/05/2010	30/09/2011	5,000,000	129,050
Non deliverable forward	18/05/2010	31/10/2011	5,000,000	128,074
Domestic Currency Swap	19/05/2010	29/07/2011	4,250,000	91,873
Domestic Currency Swap	19/05/2010	31/08/2011	4,250,000	89,552
Domestic Currency Swap	19/05/2010	30/09/2011	4,250,000	86,831
Domestic Currency Swap	19/05/2010	31/10/2011	4,250,000	86,612
TOTAL			77,000,000	1,959,026

The fair value of these transactions at 31st December 2010 did not require booking of any differences in the income statement, as they are hedging instruments.

Derivative transactions on purchases of coffee

Type of contract	Trade date	Maturity date	Commitment in Euro
SWAP	20/05/10	15/04/11	1,878,480
SWAP	20/05/10	15/05/11	1,881,918
SWAP	20/05/10	15/06/11	1,881,918
SWAP	11/10/10	12/08/11	3,559,219

TOTAL	9,201,535
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At 31/12/2010, the Parent Company had four contracts, with the commitment to purchase 222 lots of coffee. These transactions, referring to the 2011 procurement campaign, did not involve any bookings to the income statement, as they regard future purchases that will impact the purchase cost of the raw material.

COMMENTS ON THE MAIN INCOME STATEMENT ITEMS

VALUE OF PRODUCTION

REVENUES FROM SALES AND SERVICES

Revenues from the sale of goods and supply of services are broken down as follows:

Revenues from the sale of goods

	<u>Balance</u> <u>at 31/12/2010</u>	<u>Balance</u> <u>at 31/12/2009</u>	<u>Change</u>
Total revenues from sales and services	305,006,395	283,366,226	21,640,170

The Euro 21,640.2 thousand increase recorded in revenues from the sale of goods, equal to 7.64%, is attributed to the increase in sales volumes of coffee products and coffee machines.

The item finished products and coffee includes sales by the Spanish and German branches for a total of Euro 22,308.6 thousand.

A summary of sales by the Parent Company and its branches is provided below:

<u>illycaffè SpA - Sales</u>	31/12/2010	31/12/2009	Increase	%
illycaffè Spa Sucursal en Espana	9,862,517	8,874,370	988,147	11.13%
illycaffè Spa Niederlassung Deutschland	12,446,089	11,109,808	1,336,281	12.03%
illycaffè Spa Trieste	236,663,419	221,047,201	15,616,218	7.06%
	258,972,025	241,031,379	17,940,646	7.44%

INCREASES IN FIXED ASSETS FROM INTERNAL PRODUCTION

The following costs were capitalised under “Tangible fixed assets”:

	<u>Balance</u> <u>at 31/12/2010</u>	<u>Balance</u> <u>at 31/12/2009</u>	<u>Change</u>
Labour (included under personnel costs)	<u>761,122</u>	<u>217,593</u>	<u>543,529</u>

In addition to the capitalisation of personnel costs, this item also includes capitalisation of the cost of espresso machines given to clients under loan and/or lease.

OTHER REVENUES AND INCOME

This item is broken down as follows:

	<u>Balance at</u> <u>31/12/2010</u>	<u>Balance at</u> <u>31/12/2009</u>	<u>Change</u>
Compensation for damages, green coffee	93,798	157,666	-63,868
Compensation for damages, other	276,782	151,781	125,001
Gains on disposal of assets	158,639	53,131	105,509
Reimbursement of transport expenses	1,094,295	875,594	218,701
Revenues for services and repairs	1,362,223	382,630	979,593
Revenues, company canteen	124,916	114,449	10,467
Recovery of legal expenses	31,161	28,244	2,917
Rents	636,642	611,720	24,922
Sundry grants	209,324	214,714	-5,391
Other	<u>2,661,966</u>	<u>3,337,351</u>	<u>-675,384</u>
	6,649,746	5,927,280	722,466

“*Compensation for damages, green coffee*” refers to insurance repayments for damages sustained on consignments of green coffee purchased during the year and to weight differences recognised by our coffee suppliers.

“*Compensation for damages, other*” mainly refers to ordinary damages linked to distribution of our finished products.

“*Gains on disposal of assets*” mainly refer to the disposal of ordinary equipment.

The item “*Reimbursement of transport expenses*” mainly refers to the US subsidiary (Euro 662.1 thousand) and the Parent Company (Euro 372.0 thousand).

“*Sundry grants*” includes the two capital contributions received from the Parent Company: Euro 42.7 thousand under Law 26/86, Fondo Trieste, and Euro 166.6 thousand under Law 488/92. The “*Grant under Law 488/92*” includes the portion of a plant contribution linked to the depreciation of investments already made at 31st December 2010 and regarding the investment plan subsidised by the Ministry of Productive Activities.

The residual portion of the grants attributable to the income statement on a proportional basis according to the residual useful life of the assets, and the amount of the grant relating to investments still to be completed have been accrued and deferred to future periods (deferred income).

The item “*Revenues for services and repairs*” includes the portion of services charged for the transfer of personnel by the Parent Company to the joint ventures, following application of the proportional consolidation method.

The item “*Other*” includes Euro 964.0 thousand in penalties for terminations of contracts recorded by the Parent Company, consisting of amounts charged to clients as early termination penalties, particularly for the “Artisti del Gusto” and “Crescendo” programmes.

COST OF PRODUCTION

RAW MATERIALS, CONSUMABLES AND GOODS

The subject item is broken down as follows:

	<u>Balance</u> <u>at 31/12/2010</u>	<u>Balance</u> <u>at 31/12/2009</u>	<u>Change</u>
Raw materials and other	72,014,395	59,375,462	12,638,933
Charges on raw materials purchases	1,710,527	1,389,862	320,665
Coffee equipment, packaging and advertising materials	41,530,009	35,336,641	6,193,368
Other purchases	4,073,039	3,862,141	210,898
	119,327,970	99,964,106	19,363,864

In 2010, there was an overall increase in purchasing costs compared to the prior year, mainly due to the effect of the increase in the price of green coffee acquired during the year.

Contrary to the prior year, no commodity hedging was carried out by the Parent Company for purchases during the year. In fact, the hedges made refer to purchases that will be completed during 2011.

SERVICES

This item is broken down as follows:

	<u>Balance</u> <u>at 31/12/2010</u>	<u>Balance</u> <u>at 31/12/2009</u>	<u>Change</u>
Maintenance and repair costs	2,535,854	2,120,191	415,663
Industrial expenses	7,816,366	6,617,103	1,199,263
Consulting expenses	6,541,422	6,585,554	-44,132
Insurance expenses	951,821	908,057	43,764
Public utility expenses	2,243,331	1,891,854	351,478
Sundry administrative expenses	2,823,034	3,262,078	-439,044
Marketing and communication expenses	25,143,288	24,448,813	694,475
Travel expenses, employees/sales force	13,872,105	12,852,596	1,019,508
Transferred personnel	706,128	393,621	312,507
Transport and handling expenses	10,471,306	9,500,729	970,577
Board of Directors and Statutory Auditors	3,768,252	3,413,766	354,486
Storage and outsourcing expenses	4,170,758	5,564,134	-1,393,376
Other	56,145	35,644	20,501
	81,099,812	77,594,141	3,505,670

The decrease in “*Storage and outsourcing expenses*” is attributable to redefinition of the commercial relationship between the Parent Company and the joint venture MITACA Srl.

“*Travel expenses, employees/sales force*” includes Euro 4,935.1 thousand for employees and Euro 8,591.2 thousand for the sales force.

Fees for directors and statutory auditors of both the Parent Company and consolidated Group companies amount to Euro 3,768.3 thousand.

Pursuant to article 38, letter o) and o-septies) of Legislative Decree 127/1991, the total fees due to the directors and to the Board of Statutory Auditors, as well as to the Auditing Firm carrying out the audit of the consolidated financial statements (limited to the annual and consolidated accounts of the Parent Company, without considering the remuneration for auditing of the subsidiaries carried out by the auditing network of the Parent Company) are highlighted below:

Grade	Fees
Directors	3,538,701
Board of Statutory Auditors	162,500
Auditing firm	80,000
Total	3,781,201

LEASING AND RENTAL EXPENSES

This item amounts to Euro 4,791.1 thousand and includes the following: rent for buildings (Euro 2,011.2 thousand), office equipment rentals (Euro 947.7 thousand), industrial equipment rentals (Euro 266.3 thousand), long-term vehicle rentals (Euro 1,319.6 thousand), other equipment rentals (Euro 193.3 thousand) and royalties payable (Euro 53.0 thousand).

PERSONNEL COSTS

This item comprises all employee expenses, including bonuses, promotions, the cost of holidays not taken and the provisions under current law and collective agreements.

Other costs relating to employees, directly or indirectly, are included in this item as well.

Amounts paid by the Parent Company on a voluntary basis to Supplementary Pension Funds amounted to Euro 292.4 thousand.

Changes in the number of personnel by category are highlighted in the table below:

	31/12/2010	31/12/2009	Average
Executives	36	39	37
Office staff and middle managers	421	428	424
Operative grades	<u>335</u>	<u>331</u>	<u>333</u>
	792	797	795

The national labour agreement applied by the Parent Company is that of the food industry.

AMORTIZATION, DEPRECIATION AND WRITEDOWNS

Details of the four items under this caption are provided in the income statement.

Amortization and depreciation are calculated based on the useful life of the assets and their use during production.

The item “*Writedowns of receivables included within current assets and of cash and cash equivalents*” includes the Parent Company's bad debt provision for Euro 1,731.4 thousand, of which Euro 75.5 thousand relating to the Spanish branch and Euro 64.7 thousand to the German branch. The item also includes allocations to the bad debt provisions of the other Group companies for Euro 253.9 thousand.

OTHER PROVISIONS

This item consists of the following provisions made by the Parent Company: agents' leaving indemnity (Euro 271.0 thousand), *illy lovers* buyer incentives on quantities (Euro 572.7 thousand), product risk guarantee (Euro 303.5 thousand), goods returns (Euro 152.4 thousand) and legal and tax risks (Euro 430.0 thousand). The item also includes the provision made by Espresso France SAS for Euro 45.5 thousand relating to litigation with a client.

OTHER OPERATING EXPENSES

This item is broken down as follows:

	<u>Balance</u> <u>at 31/12/2010</u>	<u>Balance</u> <u>at 31/12/2009</u>	<u>Change</u>
Studies and research	39,286	54,734	-15,448
Sundry industrial expenses	7,158	13,262	-6,105
Membership fees	219,934	232,074	-12,140
PR expenses	1,252,493	1,243,207	9,286
Sundry administrative expenses	214,252	243,888	-29,636
Taxes (stamp, registration, advertising)	3,523,841	2,617,606	906,235
Capital losses on fixed asset disposals	161,969	63,881	98,087
Charity	352,596	306,847	45,750
Royalties	372,854	511,853	-138,999
Patents and other annual charges	172,796	175,971	-3,175
Other	<u>1,097,598</u>	<u>1,567,764</u>	<u>-470,166</u>
	7,414,775	7,031,087	383,688

The item “*Charity*” includes donations to various cultural and humanitarian organisations, as well as a donation to the *Ernesto Illy Foundation* for Euro 300.0 thousand during the year.

FINANCIAL INCOME AND EXPENSES

INCOME FROM EQUITY INVESTMENTS

The Parent Company recorded Euro 415.2 thousand in dividends during 2010, with Euro 371.6 thousand from Kafea Emporiki Techniki and Euro 43.6 thousand from illycaffè AG.

OTHER FINANCIAL INCOME

Income other than the above - other (item C16d)

This item includes the following:

	<u>Balance at</u> <u>31/12/2010</u>	<u>Balance at</u> <u>31/12/2009</u>	<u>Change</u>
Interest income on sundry receivables	142,725	150,534	-7,809
Interest income from banks	42,946	35,758	7,188
Interest rate swap gains	1,187,141	1,189,325	-2,185

Other interest income	47,284	100,198	-52,914
	1,420,095	1,475,815	-55,721

The item “*Interest rate swap gains*” mainly includes gains arising from the Parent Company’s interest rate swaps for Euro 587.1 thousand and premiums on options for Euro 600.0 thousand.

INTEREST AND OTHER FINANCIAL EXPENSES

This item is broken down as follows:

	<u>Balance</u> <u>at 31/12/2010</u>	<u>Balance</u> <u>at 31/12/2009</u>	<u>Change</u>
Interest expense on loans	1,521,667	2,283,067	-761,400
Interest expense due to banks	213,667	472,822	-259,155
Interest expense due to other financial institutions	318,918	409,757	-90,839
Bank charges and commissions	905,578	620,284	285,294
Financial discounts	1,736,130	0	1,736,130
Other financial expenses	<u>1,916,234</u>	<u>2,892,928</u>	<u>-976,693</u>
	6,612,195	6,678,858	-66,663

The decrease in interest expense on loans, equal to Euro 761.4 thousand, is due to lower use of medium and long-term loans recorded during the year by the Parent Company.

The item “*Other financial expenses*” includes Euro 1,316.0 thousand in losses on interest rate swaps by the Parent Company, of which Euro 302.1 thousand regarding the fair value measurement at year-end.

In the prior year, the item “*Financial discounts*” was included under “*Other financial expenses*” for Euro 467.5 thousand.

Foreign currency exchange gains and losses

In compliance with art. 2426, 8 *bis* of the Italian Civil Code and accounting standard no. 26 of the National Board of Chartered Accountants, which requires the translation of assets and liabilities at the year-end rate, the amount of Euro 80.2 thousand was recorded in unrealised exchange gains and Euro 4.0 thousand in unrealised exchange losses. The total exchange rate differences were positive and amounted to Euro 2,794.1 thousand.

ADJUSTMENTS TO FINANCIAL ASSETS

Revaluations and writedowns of equity investments

Associated companies and joint ventures were valued using the equity method upon consolidation, resulting in a total adjustment of Euro 543.8 thousand (Euro 134.6 thousand in 2009), mainly attributable to the Euro 488.6 thousand writedown for illycaffè Sud America Ltda.

EXTRAORDINARY INCOME AND EXPENSES

INCOME

This item includes:
INCOME

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Extraordinary income	1,118,909	1,641,225	-522,316

EXPENSES

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Extraordinary expenses	1,228,947	615,918	613,029

INCOME TAXES FOR THE YEAR

This item consists of current income taxes payable by the individual companies, of the adjustment to the provision for deferred taxes and of the prepaid tax credit, for a total value of Euro 8,109.1 thousand. The amount of Euro 10,066.7 thousand regards current income taxes of the Parent Company, of which Euro 6,691.7 thousand for IRES (corporate income tax), Euro 2,312.4 thousand for IRAP (regional business tax) and Euro 1,062.6 thousand for substitute taxes. Deferred tax assets/liabilities have a positive impact on the income statement for Euro 2,853.9 thousand, mainly attributable to the Parent Company for Euro 2,582.8 thousand and to Ilko Coffee International Srl for Euro 73.0 thousand. In fact, during the course of the year, the Parent Company eliminated the excess tax on accelerated depreciation by recording a substitute tax of Euro 1,062.6 thousand and simultaneously reversed the provision for deferred taxes for the entire amount, equal to Euro 2,435.3 thousand.

TRANSACTIONS WITH RELATED PARTIES

During ordinary operations, the Group carries out business transactions with the other associated companies, settled at market conditions.

Name	Trade receivables	Financial receivables	Trade payables	Other payables	Revenues from sales and services	Purchases	Interest income
TRANSACTIONS WITH PARENT COMPANY							
Gruppo Illy Spa	37,351		94,635	1,756,677	23,624	94,865	
Equity investments in associates and JV							
Ilko Coffee International Srl	186,786	1,148,110	9,903		214,447		17,505
Mitaca Srl	661,823		297,979		2,447,570		
Cafè de espressamente illy		104,453					2,388
Indirectly associated companies							
Ilko Hellenic Partners Gmbh	6,975	193,201	19,807		535,753		
Transactions with companies subject to joint control							
Domori Srl	1,892		210,538		32,444	940,100	
Damman Sas	1,870		117,260		2,072	767,405	
Mastrojanni Srl	1,508		16,147		7,880	23,737	
Other related parties							
Agrimontana Spa	13,022				123,663	620,616	
TOTAL	911,226	1,445,764	766,270	1,756,677	3,387,453	2,446,723	19,893

These financial statements, consisting of the Balance sheet, Income statement, Notes to the financial statements and Directors' report, give a true and accurate view of the financial position and results of the Company's operations and correspond to the accounting records.

Chairman of the Board of Directors

Andrea Illy

ANNEXES

These annexes contain supplementary information to that supplied by the Notes to the financial statements, of which they are an integral part.

They consist of:

- Statement of changes in consolidated shareholders' equity accounts for the year ended 31st December 2010
- Cash flow statement for the year ended 31st December 2010

ILLYCAFFE' S.P.A. AND SUBSIDIARIES

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY
FOR THE YEAR ENDING 31st DECEMBER 2010

(thousands of Euro)

Description	Share capital	Legal reserve	Revaluation reserve	Statutory reserve	Reserve for treasury shares	Regional subsidies	Translation reserve	Other reserves and retained earnings	Net profit for the year	Total
BALANCES AT 31.12.2009	6.300	2.827	6.309	0	286	798	(3.691)	71.136	5.210	89.175
Allocation of profits for 2009										0
- to other reserves								(790)	790	0
- to dividends									(6.000)	(6.000)
Grants to capital account										0
Capital increase for adjustment to euro										0
Reserve for grants taxable on a straight-line basis										0
Taxed grants reserve										0
Fiscal reserve										0
Statutory reserve										0
Revaluation reserve										0
Translation difference reserve							784			784
Other changes										0
Net profit for the year									10.973	10.973
BALANCES AT 31.12.2010	<u>6.300</u>	<u>2.827</u>	<u>6.309</u>	<u>0</u>	<u>286</u>	<u>798</u>	<u>(2.907)</u>	<u>70.346</u>	<u>10.973</u>	<u>94.932</u>

CONSOLIDATED CASH FLOW STATEMENT

€/100€

2010 2009

A. OPENING NET FINANCIAL POSITION

4.080 (203)

B. CASH FLOWS FROM OPERATING ACTIVITIES

Profit (Loss) for the year	10.973	5.210
Amortisation and depreciation	22.447	22.058
(Gains) or losses on disposal of fixed assets	3	11
(Revaluations) or writedowns of fixed assets	544	135
Increases in fixed assets from internal production	0	0
Net change in employee severance indemnity	(225)	(127)
Net change in provisions for risks and charges	(2.877)	(112)

Profit (Loss) from operations before changes in current assets 30.865 27.174

(Increase) Decrease in trade receivables	(2.413)	(3.305)
(Increase) Decrease in other current receivables	1.000	(2.066)
(Increase) Decrease in inventories	(4.893)	2.088
(Increase) Decrease in financial assets not held as fixed assets	248	(66)
(Increase) Decrease in accrued income and prepaid expenses	686	1.439
Increase (Decrease) in trade payables	8.397	1.930
Increase (Decrease) in other payables	4.414	(1.192)
Increase (Decrease) in accrued liabilities and deferred income	(522)	(1.404)

OTAL CASH FLOW GENERATED FROM (USED BY) OPERATING ACTIVITIES 37.783 24.597

C. CASH FLOWS FROM INVESTING ACTIVITIES

Investments in fixed assets:

Intangible	(3.538)	(3.558)
Tangible	(25.556)	(16.939)
Financial	(4.041)	(847)

Disposal price or redemption value of fixed assets:

Intangible	44	192
Tangible	1.163	190
Financial	1.777	1.044
Effect of consolidation	0	3.042

TOTAL CASH FLOW GENERATED FROM (USED BY) INVESTING ACTIVITIES (30.152) (16.876)

D. CASH FLOWS FROM FINANCING ACTIVITIES

New loans	58.412	24.042
New bond issues	0	0
Shareholders' contributions	0	0
Capital increases	0	0
Grants to capital account	0	0
Loan repayments	(53.972)	(21.777)
Bond redemptions	0	0
Capital paying off	0	0
Other monetary changes in shareholders' equity	0	0
Dividends distribution	(6.000)	(6.000)
Allotment of result to minority interest	(188)	(17)

OTAL CASH FLOW GENERATED FROM (USED BY) FINANCING ACTIVITIES (1.748) (3.751)

E. CASH FLOWS FROM REVALUATION ACTIVITIES

Revaluation of tangible assets	0	0
Change in shareholders' equity for revaluation	0	0
Increase (Decrease) in other payables	0	0

AL CASH FLOW GENERATED FROM (USED BY) REVALUATION ACTIVITIES 0 0

F. CASH FLOW FOR THE YEAR (B+C+D)

5.884 3.970

G. CLOSING NET FINANCIAL POSITION (A+F+H)

10.748 4.080

H. NET TRANSLATION DIFFERENCES

784 313

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF ILLYCAFFÈ
AS OF AND FOR THE YEAR ENDED DECEMBER 31 2009**



illycaffè SpA

Registered office: VIA FLAVIA n. 110 – 34147 TRIESTE (TS)

Share capital: Euro 6,300,000 fully paid in

Companies Register: 00055180327

Registered with R.E.A. under no. 21080

Overview

Macroeconomic trend

In the course of 2009, we assisted to the exacerbation of the recession started the previous year and resulting from the International financial crisis.

In an effort to stabilize macroeconomic data, governments have jointly adopted extraordinary tax and monetary measures, enabling a weak recovery in the second half of the year.

The resulting changed expectations and the role played by emerging economies such as China, India and Brazil, have contributed to increase production, at the same time setting up stocks.

Under these circumstances, the most important indicators of the share market have remarkably recovered compared with 2008, dragged in particular by goods segments depending on raw materials, banks, chemicals and industrial products.

The interest rates in the Euro area bond market remained steady at very low levels, while the spread differences between corporate and government bonds decreased.

The Central Banks have maintained an attitude of strong expansion, with capital injections in the system and interbank rates below the official ones.

As far as the currency market is concerned, the US dollar gradually depreciated towards the Euro, except in December, with a contrasting trend resulting from the Federal Reserve restrictive monetary policy and the worsening of indebtedness in Greece.

1. THE COFFEE MARKET

a) ILLY AND THE COMPETITIVE SCENARIO

In 2009 illy sold 15,000 tons of coffee, with a slight decrease compared to last year (–2.5%).

In the Italian HoReCa segment, illy slightly increased its market share by volume with respect to 2008, closing at 5.9% (internal data from DATABANK extrapolations).

In ITALY, the RETAIL market, at 114,000 tons, was slightly up on 2008 by volume (+ 1.45%) and it was also up 5.4.% by value, at Euro 960 million, thanks to increases in sale prices. Supermarkets accounted for nearly 60% of total business, while hypermarkets generated around 20%.

A survey conducted by IRI, a market research firm, showed that illy is the second coffee roaster of Espresso products by value in the Italian Retail market, immediately after Lavazza.

b) GREEN COFFEE: scenario

Despite a slightly uneven demand (insufficient global supply) and low stock levels, in the first five months the NYC fluctuation range remained reduced, between 110 and 120 US\$ cts/lb. A speculative rise up occurred between May and June, due to the frost risk in Brazil, almost to 143 US\$ cts/lb, rapidly decreasing to previous levels. Since August, the market has been swinging, registering upward trends and showing a value of approximately 145 US\$ cts/lb by the end of the year, due both to a certain decrease in projected production, mainly resulting from the poor weather conditions at the time of crops, and to speculations mainly connected with trends in the €/ \$ rate of exchange.

Apparently global production amounted to some 124–125 million sacks, compared with a forecast of 128–130, while global demand should average 130 million sacks.

Stock levels continue to remain low and, even though in 2010 production in Brazil is expected to hit record levels (53–55 million at least), taking into account the very strong role played by speculators, the price situation could remain substantially unchanged.

2. ILLYCAFFE': ECONOMIC AND FINANCE RESULTS FOR 2009

a) Key figures

The financial crisis effects and the subsequent decrease in consumption at a world-wide level have also affected Illycaffè, determining a slow-down in demand, particularly in the first part of the year, including the North American market.

In 2009, sales increased by 1.2%, from Euro 280 million to Euro 283.4 million. The decrease in sale volumes was more than offset by the increase in average prices (+5.4%) and by the appreciation of the US dollar which registered an average 5.2% increase compared with 2009 (value Euro 2.1 million).

In summary the economic and financial data for 2009 show an increase in EBITDA both as to absolute value (+1.4 million) and as a percentage of net revenues (+0.3%) compared with 2008, a decrease in EBIT and a decrease in the Group net profit.

The net financial position improves by 2.0% to Euro –104 million as a result of a lower growth in investments, less acquisitions of holdings and lower purchases of green coffee.

Reclassified income statement and balance sheet figures are given in the tables below (in thousands of Euros).

	2009	2008	Change
SALES	283,366	280,020	+1.2%
GROSS OPERATING MARGIN (EBITDA)	39,624	38,231	+3.6%
OPERATING RESULT (EBIT)	17,566	18,031	–2.6%
NET PROFITS	5,210	8,064	–35.4%
NET FINANCIAL POSITION	–104,025	–106,146	–2.0%

Detailed below are some financial indexes and their meanings:

- *EBITDA*: operating result before amortization and depreciation;
- *EBIT*: operating result before taxes and financial income and expenses;
- *NFP (net financial position)*: sum of payables to banks and short- and medium/long-term loans net of cash and cash equivalents and immediately realizable securities;
- *ROI (return on investments)*: ratio between net profits and the sum of net working capital (inventories, trade receivables and short-term trade payables) and fixed assets (tangible and intangible);
- *ROE (return on equity)*: ratio between net result and the value of shareholders' equity;
- *ROS (return on sales)*: ratio between net operating result (EBIT) and sales;
- *NFP/Equity*: ratio between net financial position and shareholders' equity;
- *NFP/Ebitda*: ratio between net financial position and gross operating margin;
- *Short term assets and liabilities ratio*: ratio between current assets and current liabilities;
- *Liquidity ratio*: ratio between the sum of current liquidity and deferred liquidity and liabilities falling due within 1 year;
- *Number of employees*: number of employees on the Company's books on the last day of the year.

Income statement by function

Illycaffè	31/12/2009	% of sales	31/12/2008	% of sales
(amounts in Euro/000)				
Net revenues	283,366	100.0%	280,020	100.0%
Raw material costs	105,569	37.3%	98,980	35.3%
Gross industrial margin	177,797	62.7%	181,040	64.7%
Personnel costs	50,117	17.7%	48,333	17.3%
Cost of goods and services	57,903	20.4%	63,709	22.8%
Advertising and marketing	24,449	8.6%	24,514	8.8%
Other operating costs (net of revenues)	1,104	0.4%	3,904	1.4%
Provisions	4,601	1.6%	2,349	0.8%
Gross operating margin (EBITDA)	39,624	14.0%	38,231	13.7%
Depreciation of tangible fixed assets	14,704	5.2%	12,190	4.4%
Amortization of intangible fixed assets	7,354	2.6%	8,010	2.9%
Net operating margin (EBIT)	17,566	6.2%	18,031	6.4%
Net financial result	6,616	2.3%	3,775	1.3%
Other income and expenses	-1,025	-0.4%	635	0.2%
Profit before taxes	11,975	4.2%	13,621	4.9%
Income taxes	6,324	2.2%	5,507	2.0%
Net profit, including minority interests	5,650	2.0%	8,114	2.9%
Profit (loss) including minority interests	-441	-0.2%	-51	0.0%
Net profit, Group	5,210	1.8%	8,064	2.9%

Balance sheet				
Illycaffè	31/12/2009	%	31/12/2008	%
ASSETS				
Trade receivables	58,561	26.8%	55,310	24.7%
– Trade payables	– 33,722	– 15.4%	– 31,792	– 14.2%
Inventories	67,316	30.8%	69,403	31.0%
Net working capital	92,154	42.1%	92,921	41.5%
Other receivables	17,585	8.0%	17,219	7.7%
Equity investments	4,485	2.1%	12,637	5.6%
Net tangible fixed assets	83,400	38.1%	81,606	36.4%
Net intangible fixed assets	21,117	9.7%	19,704	8.8%
Fixed assets	109,002	49.8%	113,947	50.8%
TOTAL ASSETS	218,741	100.0%	224,087	100.0%

LIABILITIES				
Short-term borrowing, banks	61,479	28.1%	39,546	17.6%
Med./Long term borrowing, banks	53,275	24.4%	75,841	33.8%
Cash and cash equivalents	– 10,729	– 4.9%	– 9,241	– 4.1%
Net financial position	104,025	47.6%	106,146	47.4%
Other payables	13,445	6.1%	15,937	7.1%
Employee severance indemnity	3,948	1.8%	4,075	1.8%
Other provisions	8,557	3.9%	8,669	3.9%
Total provisions	12,505	5.7%	12,744	5.7%
Minority interests	129,975	59.4%	134,826	60.2%
Minority	– 408	– 0.2%	– 391	– 0.2%
Shareholders' equity	89,175	40.8%	89,652	40.0%
TOTAL LIABILITIES	218,741	100.0%	224,087	100.0%

The table below gives the values of certain key indicators:

	2009	2008
ROI	12.1%	11.2%
ROE	5.8%	9.0%
ROS	6.2%	6.4%
NFP/Equity	1.17	1.18
NFP/Ebitda	2.63	2.78
Short term assets and liabilities ratio	1.36	1.66
Liquidity ratio	0.74	0.86
Number of employees	796	783

In the course of 2009, some financial indicators improved, particularly the NFP/Ebitda ratio and ROI consistently with attention paid to cash generation and investments profitability.

b) Sales

Consolidated net sales by geographical region (with 2008 figures for comparison) were as follows:

Euro/000	2009	%	2008	%	Change
Italy	128,557	45.4%	129,913	46.4%	-1,356
Europe	96,730	34.1%	97,683	34.9%	-953
Usa and Canada	34,530	12.2%	35,952	12.8%	-1,423
Rest of world	23,549	8.3%	16,472	5.9%	7,077
Total	283,366	100.0%	280,020	100.0%	3,346

i) Sales of coffee products reached Euro 247.5 million compared to Euro 249.0 million recorded in 2008 (-0.6%). The incidence of sales by the joint venture with Coca Cola relating to the new coffee flavoured drink on consolidated sales amounted to Euro 6.9 million, up Euro 4.1 million over 2008. Italy continues to be Illycaffè leading market, and has registered a slight -1.3% decrease, taking also into account the entry of the Itaca Joint Venture in the consolidation area. In particular, the continued good performance of the HoReCa channel should be noted, supported by success programmes such as “Artisti del Gusto” and “Crescendo”, offsetting the decline registered in the Retail market.

As far as foreign markets are concerned, a +3.5% growth trend was recorded in Distributors, led by Austria (+6.9%) and the UK (+8.5%), while subsidiaries and Branches on the whole registered a contraction in sales equal to -2.3%, the only exception being Germany, with a +5% increase.

The sales value of coffee machines was equal to Euro 12.4 million, compared with Euro 11.8 million the prior year, attributable in particular to sales of Iperespresso closed-system machines.

ii) Espressamente illy

At the end of the year, 230 espressamente Illy were open.

In the course of 2009, 26 openings took place against 12 closings.

In the EMEA region, 12 new outlets were opened, 2 of which in Paris: one at the S3 terminal at CDG Roissy airport and the other at the Galeries Lafayette, representing the beginning of a cooperation which has resulted in the signature of a development agreement.

Again in the EMEA area we report two openings in Istanbul by the local Master Franchisee, one opening in Dubai in the Dubai Mall, the first opening in Croatia (in Zagreb at the Westgate shopping center) and in London at the Euston railway station.

In the Asia Pacific region, there were 12 openings, 3 of which in Japan, 2 in Hong Kong through the local Joint Venture (with the second outlet within HK International airport, gate 16) and 4 in Vietnam.

In the Americas, an outlet was opened within the new Marriott in Montreal, representing the continued cooperation with the Marriott Group at an International level and which will result in new openings in the course of 2010.

In the course of the last quarter, espressamente strategy has been redefined, and resulted in the approval of a three-year plan. The role of espressamente is to become the reference chain for true Italian-style bars, with the mission of promoting illycaffè (and the illy Group) culture, style and products in all transit areas around the world, through partnerships with leading Horeca operators.

Accordingly, the concept was internally redefined, with clear objectives of strengthening the illy identity, strengthen the visibility of the commercial supply, emphasize the customer experience and decrease investment costs. The new concept store was born in Rue Auber in March 2010 (the only direct management outlet).

iii) Università del Caffè

Training activities registered the presence of 12,991 attendances (of whom 1,344 producers, 7,821 professionals and 3,826 consumers), compared with 11,404 in 2008. The new openings in Istanbul and Mexico City have increased the number of existing premises in the world to 16. 7 new training proposals have been added to the courses catalogue. Udc, in cooperation with Trieste and Udine Universities, Sissa and other institutional players (among them, the Ernesto Illy Foundation) has started the realization of a second level university Master in Coffee Science and Economics. The advertising activities of the *Direzione Cultura del Caffè* have expanded and enriched with a second multimedia box, with the completion of the collection *Il caffè perfetto* and the book *Il caffè espresso* by Andrea Illy.

c) Costs and provisions

The cost of sales rose from Euro 98.9 million to Euro 105.6 million, up Euro 6.7 million; the ratio to sales increased from 35.3% to 37.3%.

As a result, the gross industrial margin, based on revenues from sales, moved from 64.7% to 62.7%.

Costs for services amounted to Euro 57.9 million, down Euro 5.8 million on 2008. The ratio of this figure to revenues from sales moved from 22.8% to 20.4%.

Advertising and marketing expenses decreased by Euro 0.1 million, the ratio to net revenues moving from 8.8% to 8.6%.

Overall personnel costs were up by Euro 1.8 million, from Euro 48.3 million to Euro 50.1 million in 2009. The ratio to revenues from sales moved from 17.3% in 2008 to 17.7% in 2009.

Depreciation and amortization charges increased from Euro 20.2 million to Euro 22.1 million, the ratio to revenues moving from 7.3% to 7.8%.

d) Net profit and taxation

Net profit decreased to Euro 5.2 million, down Euro 2.9 million on 2008, net of taxes of Euro 6.3 million.

The average tax rate applied to profit before taxes was 52.8 % against 40.4% in 2008 following the recording of deferred tax assets by the US subsidiary.

e) Net financial position

The Group's net financial position moved from Euro -106.2 million to Euro -104.0 million, that is a slight increase of Euro 2.2 million with respect to 2008.

Medium/long-term debt, amounting to Euro 53.3 million, represents 46.42 % of total indebtedness to banks; in 2010 two credit lines will fall due for an amount of Euro 30 million and negotiations are in progress with primary financial institutions.

Financing activities totaled Euro 6.6 million (+Euro 3.8 million on 2008), the ratio to revenues moving from 1.3% to 2.3%. The change is mostly imputable to negative currency transactions recorded over the year due both to the Euro/dollar exchange rate and hedging operations. Financial expenses relating to banks slightly increased thanks to the fall in interest rates.

The current trend in interest rates (EURIBOR) and expectations for 2010 suggest that the cost of money should remain stable compared to last year.

f) Branches

In 2009, illycaffè SpA continued to market illy products through its branches in Barcelona (Spain), serving the Iberic Peninsula, and Munich (Germany) serving the German market.

The two establishments' addresses are, respectively: C/Pere IV 397-401, Naves 7-8 08020 Barcelona and Staffelseestrasse 4, 81477 München.

g) New investments

On 16 February 2009, the investment in illycaffè AG with registered office in Thalvil (CH) was increased, purchasing no. 4 shares for a total consideration of CHF 400 thousand. The holding percentage has currently increased to 30% of the share capital.

On 9 April 2009, the Company purchased 100% of the quota capital of Enterprise Srl, with registered office in Trieste, a company which owns the leased building next to the Company's headquarters, for a total consideration of Euro 450 thousand. The acquisition has facilitated the physical connection with the building owned by illy real estate Srl.

In October 2009, the subsidiary Illy Asia Pacific – Hong Kong – sold to illy bar concept SpA the full holding equal to 30% of capital of the following companies:

- DACHAN Espressamente illy Ltd (HK) for Euro 538 thousand;
- Cafè de Espressamente illy Ltd (HK) for Euro 238 thousand;

These companies are the joint ventures established in 2008 by illycaffè SpA with local partners to develop franchising operations in China and Hong Kong respectively.

3. RESEARCH & DEVELOPMENT

Research and Development

In the course of 2009, from the organizational point of view, the Company further consolidated the FoodScienceLab, to support the development of Ilko and of new products (illycrema). AromaLab (a lab situated in the Science Park Area) and SensoryLab have been refocussed on certifications; ring-tests were performed together with training activities and drafting of the quality manual to support certification on the basis of the ISO 17025 standard.

As far as industrial research is concerned, research activities have been carried out on sustainability, with Trieste University on Biodegradable Plastic Materials and with Trieste University and SPRIN srl on the development of biodiesel from coffee waste. Furthermore, research also concerned the study of biologically active compounds other than caffeine in roasted coffee, with Udine University on the lipase activity, with Padua University on the lipids determination by NMR (Nuclear Magnetic Resonance), with Trieste University on the arabinogalactan antiproliferative activity, with CBM-Bracco on the caffeine-chlorogenate complex and with the Slovak Academy of Sciences of Bratislava on the chemico-structural characterization of arabinogalactan.

The team of researchers published 4 articles on scientific magazines and illustrated 7 reports to scientific conferences.

Machines and systems business unit

In May 2008, the Company started a project for the rationalization of the machines supply chain. On 30 January 2009, the three-year OSMAP contract was signed for the manufacture in China of home machines, in January the first production line is set up in Shenzhen, on 30 April the Francis Francis plant in via Caboto is shut down and on 13 May 2009 the first X7 machine is manufactured in Shenzhen.

Patents

Illycaffé's patent portfolio at 25 November 2009 numbered 354 patents filed, of which 214 granted and 140 pending for approval, divided into 40 families.

In 2009 the Company invested around Euro 1.2 million in R&D expenses, net of tax credit, or 0.4% of consolidated sales, as follows:

• Fixed assets	Euro 0.7 million
• Amortization and depreciation	Euro 0.7 million
• Operating costs	Euro 0.1 million
• Costs of services	Euro 0.4 million
• Costs of materials	Euro 0.1 million
• Leases and rentals	Euro 0.1 million
• Tax credit R&D	Euro (0.9) million

4. BUSINESS WITH ASSOCIATED COMPANIES

Name	Country	Share capital	Shareholders' equity	Profit (loss)	% held by illycaffè SpA	Holding company
I.T.A.CA srl	Italy	1,820,000	6,975,484	220,664	50.00%	illycaffè spa
Ilko Coffee International srl	Italy	20,000	1,210,014	(1,710,053)	50.00%	illycaffè spa
Ilko Hellenich Partners GmbH	Austria	35,001	136,180	(1,863,820)	33.33%	Ilko Coffee International srl
Cafè de Espressamente Ltd	Hong Kong	HK\$ 10,000	HK\$ 7,896,261	HK\$ (1,271,522)	30.00%	Illy Bar Concept spa
Dachan Espressamente illy Ltd.	Chinese People's Republic	USD 3,500,000	USD 3,451,250	USD (20,912)	30.00%	Illy Bar Concept spa
Espressamente illy Food & Beverage Management Co. Ltd.	Chinese People's Republic	RMB 19,431,007	RMB 9,978,492	RMB (3,832,140)	30.00%	Dachan Espressamente illy Ltd.
Espressamente illy Ltd.	Taiwan	NT\$ 48,000,000	NT\$ 18,427,147	NT\$ (18,162,880)	30.00%	illycaffè Asia Pacific Ltd.

Further details on related parties transactions can be found in the Notes to the financial statements.

5. BUSINESS WITH THE PARENT COMPANY

The receivables and payables stated on the balance sheet refer to amounts due from/to the Company to/from Group Illy Spa arising from the decision in 2008 to continue opting for tax treatment under the "National Consolidated tax return" system.

6. TREASURY SHARES

The Company holds 105,000 of its own shares, representing 10% of the share capital. It does not hold shares or quotas of parent companies, even through trust companies or other intermediaries. No shares or quotas of parent companies were acquired in 2009.

7. FINANCIAL RISK: OBJECTIVES AND POLICIES

The Company constantly monitors financial risks, with the objective of minimizing the impact of negative variations on the Company's operating performance.

The financial risks to be taken into account are the credit risk, the liquidity risk and the market risk (including the rate of exchange risk, the interest rate risk and the commodity prices risk). These risks are centrally managed by the finance and administration department on the basis of the guidelines agreed by top management.

The Company also uses derivative financial instruments for hedging purposes exclusively.

Credit risk

The Company tends to limit the risk of client insolvency, as far as it can, by applying rules to ensure that sales are only made to reliable and solvent clients. Based on client credit history information, historical data and exposure limits per client, these rules make it possible to reduce the concentration of credit, thereby minimizing risk. Exposure to credit risk is thus spread across a higher number of counterparts and clients.

Individual positions may be written down where amounts are significant and the Group ascertains that they cannot objectively be collected, either totally or partially, also taking into account any security provided and the expense of recovering the amounts. In the case of amounts that have not been written down individually, the Company makes provisions on the basis of historical experience and statistics.

Liquidity risk

The liquidity risk could arise with the inability to find the financial resources necessary to support operations, at optimal terms and with the appropriate timing. Company's Treasury constantly monitors the cash flows, the financing requirements and the Company's liquidity at a central level, in order to guarantee an effective and efficient financial resources management.

Market risk

- *Exchange rate risk*

The Company operates in foreign markets, generating foreign currency flows which determine an exposure to the exchange rate risk. In particular, raw material (green coffee) in its entirety and a portion of sales are settled in US\$, with a resulting net debt exposure in the currency (in 2009, sales covered 25% approximately of purchases). Trends in recent years have thus enabled the Group to benefit from the weak dollar. Hedging operations are undertaken, however, within a maximum time scale of 12 months and in particularly favourable moments, compatibly with expected cash flows and in observance of the aforementioned principles. The

instruments used are normally combinations of forward operations and zero cost options negotiated through primary banks.

- *Interest rate risk*

Indebtedness to banks exposes the Company to the risk of changes in interest rates. In particular, variable rate loans have a risk in the cash outflows, whereas fixed rate loans imply a potential change in their fair value.

The Company regularly assesses its exposure to interest rate risk and uses derivative instruments (Interest Rate Swaps – I.R.S.) for the purpose of minimizing the volatility of cash flows. The counterparties are primary banks and at the start of the hedging operation there is a formal designation and documentation of the hedged relationship.

- *Risk in raw material prices*

The Company is exposed to the risk of variations in raw material prices, taking into account that the market performance and seasonal atmospheric conditions affect price quotations. To limit price volatility, the Company uses derivative instruments with banks specialized in the agricultural industry.

8. MANAGEMENT OF MAIN BUSINESS RISKS

Detailed below are the main risks and areas of uncertainty to which the Company is potentially exposed in the pursuit of its business objectives, together with a description of how such risks are managed.

For the sake of clarity, risk factors are divided into two homogeneous groups: those arising outside the Company (**external risks**) and those arising from characteristics of its organization (**internal risks**).

External risks

The Company first of all manages **financial risks** at a central level as described in section 7 of this report.

As for the risk attaching to raw materials, together with change in prices, another related risk arises from the difficulties involved in sourcing coffee, given that our Company has always selected and purchased the best quality Arabica. It should be noted, however, that procurement policy is planned well in advance and exclusive long-term contracts are sometimes stipulated with our producers in strategic countries to guarantee product quality.

Strategic risks include factors that may affect our strategic opportunities or pose strategic threats. In particular, the Company must ensure it is able to:

- take up new business opportunities in terms of geographical regions and business segments;
- correctly appraise the potentialities of markets;
- protect its brands, which is indispensable for success and competitiveness on the market.

Market risks include the effects that changes in the market may have on our business. On the distribution front, there is a possibility that competition will increase, also given that there are few barriers to new entry. Or again, our main competitor at the global level may increase its market share by massive spending on advertising and communication.

The Company's main strategy is to insist on product quality and use a single blend of toasted coffee. Our business could also become more sensitive to changes in consumers' shopping habits, since our product is positioned in the high-end of the market. Consumers' preferences may change from time to time in each market where we operate.

Our business is to a certain extent sensitive to climatic conditions. Serious droughts or frosts during green coffee harvesting could trigger significant rises in raw material prices, with potentially negative effects on the income results.

Deflationary pressure on prices arising from increased competition and changes in consumer preferences may also harm the Group's income performance and thus its financial position.

Regarding **health, safety and environmental risks**, the Group is particularly vigilant about workplace health and safety, and environmental issues. It also organizes frequent training courses and workshops for employees, especially on safety. In 2003, illycaffè obtained UNI EN ISO 14001 environmental management system certification from DET NORSKE Veritas Italia, a certification organization, and in 2004 was issued a certificate of EMAS (Eco-Management and Audit Scheme) Registration by APAT (Agenzia per la Protezione dell'Ambiente e Servizi Tecnici – agency for the protection of the environment and technical services).

Regarding health in particular, it should be remembered that coffee is sometimes cited by media campaigns focusing on risks that may be associated with excessive daily consumption of the drink and the potential harm it may do.

Internal risks

These include **operating risks** attaching to negative consequences arising from processes, organization or internal systems involved in day to day business. The strategy of expansion and growth has increased the impact of fixed and operating costs, partly to boost our image and market share. Our IT systems, which are currently undergoing certain modifications, pose by their very nature the risk of temporary suspension of business. Said modifications regard replacement of the current business systems with newer versions. We are confident in any case that we have taken all the necessary measures to limit such risks, including testing, training and preparation activities with the suppliers of the new systems.

On the subject of **risks attaching to management of human resources**, the Company fully acknowledges the central importance of individuals as strategic partners, and the importance of maintaining transparent relationships based on mutual loyalty and trust, as well as on the application of the Code of Ethics recently adopted by our Company. Management of and collaboration in employment relationships is firmly rooted in respect for employees' rights, full recognition of their contribution and in the commitment to furthering their professional development. Annual performance assessment systems are applied to determine the variable component in remuneration tied to the achievement of results. Such systems are based on clear definition and sharing of numerically measurable economic and financial targets and individual objectives.

9. SECURITY PROGRAMME DOCUMENT

"Disclosure pursuant to legislative decree 196, 30th June 2003 (protection of personal data)"

Pursuant to section 26 of the Technical Regulation on minimum security measures, under Annex B of legislative decree 196, 30th June 2003 (protection of personal data), we hereby declare that the Documento Programmatico sulla Sicurezza (DPS) (Security Programme Document, SPD) with reference to processing of personal data was updated in March 2009.

The SPD contains the information required under section 19 of the aforementioned Technical Regulation and describes the security measures adopted by the Company to reduce to a minimum the risk of destruction or loss, including by accident, of personal data and of non-authorized access or processing not allowed or not conforming to the purposes for which it was collected.

10. SUBSEQUENT EVENTS AND FORECAST FOR 2010

The sales performance in the first months of the year shows a contrasting trend compared with the first months of 2009. Nevertheless, appropriate cost control and investment plans are in place, to take advantage at best of the evolution in the weak recovery, and to guarantee to the Company a profitability in line with the projections formulated at the time of the preparation of the 2010 budget.

The financial side is not under pressure and the Company has continued to operate towards its expansion, with the credit lines granted by banks.

Pressure on the commodities side has partly slowed down, particularly as far as coffee is concerned.

Euro-denominated interest rates have apparently confirmed a steadiness trend, while the Euro continues to be affected by the situation in Greece both with regard to the dollar and to the other currencies.

From May through July 2009, the Inland Revenue Office carried out an accounting and tax inspection for the 2006 fiscal year, and a formal control of the accounting records and of other documents relevant from the tax point of view, for 2009. When the inspection was concluded, the Office notified the minutes of inspection, with no formal violations with regard to the formal control for 2009, while, with regard to the 2006 fiscal year, some exceptions were

identified which might result in higher taxable income. It should be noted that to date the Company has not received any notice of assessment with regard to the exceptions identified by the Inland Revenue Office; the Company has however accrued a provision against the potential risk.

Andrea Illy
Chairman of the Board of directors

illycaffè Spa - CONSOLIDATED BALANCE SHEET AT 31/12/2009

	2009 (in Euros)		2008 (in Euros)	
A) Subscribed capital unpaid (of which called capital)		0		0
B) FIXED ASSETS				
I. Intangible fixed assets				
1) Start-up and expansion expenses	167,675		194,838	
2) R&D and advertising costs	1,246,957		1,984,045	
3) Industrial patent rights and intellectual property rights	2,781,182		3,185,603	
4) Concessions, licenses, trademarks and similar rights	2,999,153		3,313,951	
5) Goodwill	6,819,463		2,647,035	
6) Intangible fixed assets under construction and advances	846,206		987,038	
7) Other	6,016,007	20,876,644	7,391,668	19,704,177
II. Tangible fixed assets				
1) Land and buildings	42,467,690		42,313,940	
2) Plant and machinery	21,068,858		21,438,862	
3) Industrial and commercial equipment	13,120,713		11,360,367	
4) Other assets	4,636,058		4,822,078	
5) Tangible fixed assets under construction and advances	2,346,521	83,639,840	1,670,544	81,605,791
III. Financial fixed assets				
1) Equity investments in:				
a) subsidiaries	0		0	
b) associates	772,185		9,193,740	
c) parent companies	0		0	
d) other companies	3,427,513	4,199,698	3,157,461	12,351,201
2) Receivables from:				
a) subsidiaries				
within 12 months	0		0	
beyond 12 months	0	0	0	0
b) associates				
within 12 months	103,972		0	
beyond 12 months	0	103,972	0	0
c) parent companies				
within 12 months	0		0	
beyond 12 months	0	0	0	0
d) others				
within 12 months	909,941		1,299,832	
beyond 12 months	2,114,572	3,024,514	2,211,554	3,511,386
Total receivables		3,128,485		3,511,386
3) Other securities		0		0
4) Treasury shares (Total nominal value)		285,647		285,647
TOTAL FIXED ASSETS		112,130,314		117,458,203

illycaffè Spa - CONSOLIDATED BALANCE SHEET AT 31/12/2009

	2009 (in Euros)		2008 (in Euros)	
C) CURRENT ASSETS				
I. Inventories				
1) Raw materials and consumables	41,175,703		44,089,361	
2) Work in progress and semi-finished products	180,522		143,797	
3) Work in progress	0		0	
4) Finished products and goods	24,236,225		25,035,667	
5) Advances	1,723,263	67,315,713	134,584	69,403,409
II. Receivables				
1) Trade receivables				
within 12 months	58,320,210		53,662,779	
beyond 12 months	240,734	58,560,944	219,164	53,881,942
2) Subsidiaries				
within 12 months	0		0	
beyond 12 months	0	0	0	0
3) Associates				
within 12 months	0		1,428,244	
beyond 12 months	0	0	0	1,428,244
4) Parent companies				
within 12 months	253,966		199,584	
beyond 12 months	0	253,966	0	199,584
4 bis) Taxes				
within 12 months	2,331,418		1,291,787	
beyond 12 months	0	2,331,418	0	1,291,787
4 ter) Deferred tax assets				
within 12 months	5,635,465		5,233,801	
beyond 12 months	22,723	5,658,188	0	5,233,801
5) Others				
within 12 months	3,139,517		2,622,574	
beyond 12 months	273,881	3,413,397	188,634	2,811,208
Total receivables		70,217,913		64,846,565
III. Current financial assets				
1) Investments in subsidiaries	824,000		824,000	
2) Investments in associates	0		0	
3) Investments in parent companies	0		0	
4) Other investments	0		0	
5) Treasury shares (total nominal value)	0		0	
6) Other securities	1,914,790	2,738,790	1,848,694	2,672,694
IV. Cash and cash equivalents				
1) Bank and postal deposits	8,780,284		7,390,858	
2) Cheques	0		0	
3) Cash in hand	33,433	8,813,718	38,271	7,429,129
TOTAL CURRENT ASSETS		149,086,133		144,351,796
D) ACCRUED INCOME AND PRE-PAID EXPENSES				
- Discount on loans	0		0	
- Other	1,871,527	1,871,527	3,310,816	3,310,816
TOTAL ASSETS		263,087,974		265,120,816

illycaffè Spa - CONSOLIDATED BALANCE SHEET AT 31/12/2009

	2009 (in Euros)		2008 (in Euros)	
A) SHAREHOLDERS' EQUITY				
I. Share capital	6,300,000		6,300,000	
II. Additional paid-in capital	0		0	
III. Revaluation reserve	6,308,963		6,308,963	
IV. Legal reserve	2,827,248		2,827,248	
V. Statutory reserves	0		0	
VI. Reserve for treasury shares	285,647		285,647	
VII. Other reserves:				
grants taxable on a straight-line basis	0		0	
for grants, taxed	0		0	
extraordinary	72,878,931		70,164,183	
capital gains on investments, under art. 54 TUIR	0		0	
fiscal	0		0	
grants to the capital account	797,731		797,731	
VIII. Profits (losses) carried forward	-5,433,350		-5,095,448	
IX. Profit (loss) for the year	5,209,527		8,063,557	
Consolidated shareholders' equity, Group		89,174,699		89,651,882
Equity attributable to minority interest	-849,047		-441,867	
Profit (loss) attributable to minority interest	440,872		50,786	
Total consolidated shareholders' equity, group and minority interest		88,766,524		89,260,800
B) PROVISION FOR CONTINGENCIES AND OTHER CHARGES				
1) Pensions and similar obligations	0		0	
2) Provision for taxation, incl. deferred tax liabilities	3,610,012		4,023,176	
3) Other provisions for contingencies and other charges	4,947,053	8,557,066	4,645,950	8,669,126

illycaffè Spa - CONSOLIDATED BALANCE SHEET AT 31/12/2009

	2009 (in Euros)		2008 (in Euros)	
C) EMPLOYEE SEVERANCE INDEMNITY		3,947,534		4,074,782
D) PAYABLES				
1) Bonds				
within 12 months	0		0	
beyond 12 months	0	0	0	0
2) Convertible bonds				
within 12 months	0		0	
beyond 12 months	0	0	0	0
3) Amounts due to shareholders for loans				
within 12 months				
beyond 12 months		0		0
4) Amounts due to banks				
within 12 months	57,256,973		35,133,330	
beyond 12 months	41,829,802	99,086,774	63,901,680	99,035,010
5) Amounts due to other financial institutions				
within 12 months	4,222,021		4,412,184	
beyond 12 months	11,445,184	15,667,205	11,939,788	16,351,972
6) Advances from customers				
within 12 months	0		0	
beyond 12 months	0	0	0	0
7) Trade payables				
within 12 months	33,722,431		30,047,229	
beyond 12 months	0	33,722,431	0	30,047,229
8) Trade notes issued				
within 12 months	0		0	
beyond 12 months	0	0	0	0
9) Amounts due to subsidiaries				
within 12 months	0		0	
beyond 12 months	0	0	0	0
10) Amounts due to associates				
within 12 months	0		1,744,921	
beyond 12 months	0	0	0	1,744,921
11) Amounts due to parent companies				
within 12 months	583,356		1,086,800	
beyond 12 months	0	583,356	0	1,086,800
12) Amounts due to tax authorities				
within 12 months	2,317,638		2,347,539	
beyond 12 months	0	2,317,638	0	2,347,539
13) Amounts due to social security institutions				
within 12 months	3,278,517		3,324,546	
beyond 12 months	0	3,278,517	0	3,324,546
14) Other payables				
within 12 months	6,002,662		6,615,379	
beyond 12 months	0	6,002,662	0	6,615,379
Total payables		160,658,584		160,553,397
E) ACCRUED LIABILITIES AND DEFERRED INCOME				
- Premiums on loans	0		0	
- Other	1,158,267	1,158,267	2,562,711	2,562,711
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		263,087,974		265,120,816
Commitments, currency to deliver		0		0
Commitments, currency to buy		0		0
Commitments, property to buy		0		0
Commitments, goods to buy		0		10,176,520
Guarantees provided in favour of associates		0		0
Guarantees provided in favour of third parties		26,000		26,000
Unsecured guarantees		250,322		0
Commitments, Interest Rate Swaps		0		0
Commitments, leasing contracts		776,246		790,791
Guarantees received from third parties		1,065,199		180,472
Commitments, futures		0		0

illycaffè Spa - CONSOLIDATED INCOME STATEMENT AT 31/12/2009

	2009 (in Euros)		2008 (in Euros)	
A) VALUE OF PRODUCTION				
1) Revenues from sales and services		283,366,226		280,020,362
2) Changes in inventories of work in progress, semi-finished and finished products		-2,260,728		2,191,997
3) Changes in work in progress		0		0
4) Increase in fixed assets from internal production		217,593		644,935
5) Other revenues and income:				
- other	5,923,689		3,572,767	
- operating grants	3,590	5,927,280	282,100	3,854,867
TOTAL VALUE OF PRODUCTION		287,250,371		286,712,161
B) COST OF PRODUCTION				
6) Raw materials, consumables and goods		99,964,106		109,205,611
7) Services		77,594,141		84,028,546
8) Leases and rentals		4,758,028		4,194,348
9) Personnel:				
a) Wages and salaries	36,594,132		35,050,194	
b) Social security	11,171,679		10,637,552	
c) Employee severance indemnity	1,706,456		1,630,606	
d) Pensions and similar	0		0	
e) Other costs	644,546	50,116,813	1,015,129	48,333,481
10) Amortization, depreciation and writedowns:				
a) Amortization of intangible fixed assets	7,354,500		8,010,323	
b) Depreciation of tangible fixed assets	14,429,202		12,182,362	
c) Other writedowns of fixed assets	274,579		7,427	
d) Writedowns of receivables included within current assets and of cash and cash equivalents	1,160,154	23,218,435	698,131	20,898,244
11) Changes in raw materials, consumables and goods		3,561,560		-7,388,270
12) Provisions for contingencies and other charges		0		0
13) Other provisions		3,440,683		1,650,632
14) Other operating costs		7,031,087		7,758,367
TOTAL COST OF PRODUCTION		269,684,852		268,680,959
DIFF. BETWEEN VALUE AND COST OF PRODUCTION (A-B)		17,565,519		18,031,201

illycaffè Spa - CONSOLIDATED INCOME STATEMENT AT 31/12/2009

	2009 (in Euros)		2008 (in Euros)	
C) FINANCIAL INCOME AND EXPENSES				
15) Income from investments in:				
- subsidiaries	0		0	
- associates	0		114,484	
- others	125,991	125,991	445,398	559,882
16) Other financial income:				
a) from receivables held as financial fixed assets:				
- subsidiaries	0		0	
- associates	0		0	
- parent companies	0		0	
- others	31,868		31,145	
b) from securities held as financial fixed assets	0		0	
c) from securities held as current assets	58,604		42,036	
d) income other than above, from:				
- subsidiaries	0		0	
- associates	0		40,018	
- parent companies	0		0	
- others	1,475,815	1,566,288	1,779,622	1,892,821
		1,692,279		2,452,703
17) Interest and other financial expenses:				
- subsidiaries	0		0	
- associates	0		0	
- parent companies	0		0	
- others	-6,678,858	-6,678,858	-8,265,866	-8,265,866
17bis) Foreign currency exchange gains and losses	-1,494,908	-1,494,908	2,874,724	2,874,724
TOTAL FINANCIAL INCOME AND EXPENSES		-6,481,487		-2,938,440
D) ADJUSTMENTS TO FINANCIAL ASSETS				
18) Revaluations:				
a) equity investments	0		0	
b) financial fixed assets	0		0	
c) securities held as current assets	0	0	0	0
19) Writedowns:				
a) equity investments	-134,559		-836,355	
b) financial fixed assets	0		0	
c) securities held as current assets	0	-134,559	0	-836,355
TOTAL ADJUSTMENTS TO FINANCIAL ASSETS		-134,559		-836,355

illycaffè Spa - CONSOLIDATED INCOME STATEMENT AT 31/12/2009

	2009 (in Euros)		2008 (in Euros)	
E) EXTRAORDINARY INCOME AND EXPENSES				
20) Income:				
- gains on disposals	0		0	
- other	1,641,225	1,641,225	870,061	870,061
21) Expenses:				
- losses on disposals	-69,230		-29,623	
- prior years taxes	-6,261		-128,779	
- other	-540,427	-615,918	-1,347,080	-1,505,482
TOTAL EXTRAORDINARY INCOME AND EXPENSES		1,025,308		-635,421
EARNINGS BEFORE INCOME TAX (A-B+-C+-D+-E)		11,974,780		13,620,986
22) Income taxes for the year: current and deferred		-6,324,381		-5,506,644
23) Profit/loss for the year including minority interest		5,650,399		8,114,343
Minority interest		-440,872		-50,786
Consolidated net profit for the year attributable to equity holders		5,209,527		8,063,557



illycaffè SpA

Registered office: via Flavia 110 – 34147 Trieste (TS)
 Share capital: Euro 6,300,000 fully paid in
 Companies Register no. 00055180327
 Registered with R.E.A. under no. 21080

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31st DECEMBER 2009

FORMAT AND CONTENT OF FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with the provisions of legislative decree 127/91, which enforces EEC Directive VII in Italy, and include the balance sheet (prepared in the format required by art. 2424 and 2424 bis, Italian Civil Code), income statement (prepared in the format required by art. 2425 and 2425 bis, Civil Code) and these Notes to the financial statements, prepared in accordance with art. 2427 and 2427-bis, Civil Code.

The purpose of these notes is to provide the information required under art. 38, legislative decree 127/91, other provisions of the Civil Code regulating the preparation of financial statements and other earlier legislation. The notes also provide all the additional information we deem necessary for a true and fair view of the company's financial position and results of operations, even where not specifically required by the law.

All amounts are stated in Euros, as is standard practice.

CONTENT OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the financial statements of illycaffè SpA and those of the following directly or indirectly controlled subsidiaries at 31st December 2009 consolidated on a line by line basis:

		<u>share capital</u>	<u>interest</u>
Illycaffè France SAS	Euro	1,064,000	99.99%
Illy caffè North America Inc.	US\$	4,970	100%
Illycaffè Nederland B.V	Euro	181,600	100%
Espressamente France SAS	Euro	1,200,000	100%
Bar Finance International SpA	Euro	1,250,000	100%
Magic l'Espresso SL	Euro	279,465	100%
Experimental Agricola do Brasil Ltda	R\$	4,242,853	99.90%
Porto de Santos Comercio e Exportacao Ltda	R\$	420,000	51%
Illycaffè Asia Pacific Ltd.	HK\$	1	100%
Espressamente illy America Inc.	US\$	25,000	99.99%
Enterprise Srl	Euro	10,000	100%
Illy Real Estate Srl	Euro	26,000	100%
Illy espresso Canada Inc.	Can\$	2,000,100	100%
Illy Bar Concept SpA	Euro	5,522,600	99.99%

Also included, but on a proportional basis, are the following companies:

		<u>share capital</u>	<u>interest</u>
Ilko Coffee International Srl	Euro	20,000	50.00%
Ilko Hellenich Partners GmbH	Euro	35,001	33.33%
I.T.A.CA Srl	Euro	1,820,000	50.00%

Current financial assets include the Group parent company's 100% interest in ***Eltrade Srl***, based in Trieste and carried at cost. This investment was not consolidated as allowed under art. 28, clause 2d), legislative decree 127/91.

The finance department of the headquarter periodically receives financial data from its branches - ***illycaffè SpA Niederlassung Deutschland*** and ***illycaffè SpA Sucursal en Espana*** - as required by law.

Over the year, the Group parent company set up a representative office in Shanghai.

In 2009, the consolidation area expanded following the inclusion of Enterprise Srl and I.T.A.CA Srl, the latter being stated on the basis of the equity method in 2008. The change in the consolidation criteria is considered more adequate for the purposes of the representation of the group's consolidated financial statements.

It must be pointed out that the Group parent company holds call/put option agreements with I.T.A.CA Srl shareholders for the acquisition of an additional 15% to be exercised within 12 months from the approval of the financial statements as at 31st December 2011 and for the acquisition of an additional 35% to be exercised within 12 months dating from the 24th month subsequent to the exercise of the 15% option.

The financial statements used for consolidation are based on those prepared by the Boards of directors of each company and submitted to their respective Shareholders' meetings for approval.

Such financial statements have been adjusted, where necessary, to comply with the evaluation criteria required by art. 2426 Civil Code, as used by the Group, and integrated and interpreted according to the accounting standards promulgated by the "Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri" (National Board of Chartered Accountants), as amended by the "Organismo Italiano di Contabilità".

CONSOLIDATION CRITERIA

The accounting principles applied in the preparation of these consolidated financial statements are as follows:

- a) consolidation of individual company financial statements on a line by line basis and elimination of the book value of investments held by the parent company or other Group companies against the relative shareholders' equity. Positive differences arising upon acquisition (or first-time consolidation) of investments from elimination of the book value of such investments and the corresponding interest in the shareholders' equity of such companies at current values are recorded within intangible fixed assets

under “Goodwill”, whereas negative differences are recorded within shareholders’ equity, under “Consolidation reserve”. Goodwill is amortized on a straight-line basis between five and twenty years;

- b) elimination of receivables and payables, costs and revenues arising from operations between consolidated companies;
- c) elimination of profits on sales to subsidiaries included in the value of stocks, net of the relative fiscal effect;
- d) foreign subsidiary company financial statements are translated into Euro by applying the year-end exchange rate to assets and liabilities and the average rate for the year to income statement items; exchange differences arising from translation of foreign currency financial statements are recorded directly into shareholders’ equity. Detailed in the table below are the rates applied as required by accounting standard OIC 17:

Currency	2009		2008	
	Average rate	Year-end rate	Average rate	Year-end rate
USD	1.39478	1.4406	1.47076	1.3917
CAN\$	1.58496	1.5128	1.55942	1.6998
R\$	2.76742	2.5113	2.67373	3.2436
HK\$	10.8114	11.1709	11.4541	10.7858

- e) interest in consolidated shareholders’ equity held by minority shareholders is stated separately under the shareholders’ equity item “Equity attributable to minority interest”, while minority shareholders’ interest in the net results of such companies is stated separately under the consolidated income statement item “Minority interest”.

EVALUATION CRITERIA

The criteria used in the preparation of the consolidated financial statements at 31st December 2009 are consistent with those used the previous year, particularly in terms of evaluation and continuity of accounting standards as required by art. 2423-bis, and as deriving from application of the new standards introduced by legislative decree 6/2003 (company law reform) and legislative decree 310/2004.

Consolidated financial statements items have been prepared on an accrual basis, using the general criteria of prudence and as applied to a going concern, also taking into account the economic function of asset and liability items.

Application of the principle of prudence entailed individual evaluation of elements making up each asset/liability item to avoid compensation between losses to be recognised and profits not to be recognised because not realized.

In accordance with the accrual basis principle, the effects of operations and other events are recorded and attributed to the period to which such operations and events refer and not to the period in which the actual cash movements (collection and payment) occur.

Continuity in the application of evaluation criteria is necessary for the purposes of comparing the Company’s financial statements over different periods.

Evaluation reflecting the economic function of assets and liabilities, on the principle that substance should prevail over form (which is mandatory where not in contrast with other specific financial statements regulations), enables operations to be represented in such a way that the economic reality underlying the formal aspects is made clear.

In preparing these consolidated financial statements, the Company has in general applied the accounting standards of the “Dottori Commercialisti e dei Ragionieri”.

The evaluation criteria adopted in the preparation of the financial statements at 31st December 2009 are outlined below.

Tangible fixed assets

These items are stated at purchase or production cost net of accumulated depreciation. Some tangible fixed assets are valued in accordance with legislation on monetary alignment, as commented on in the relevant section of these Notes.

Historical cost includes additional charges and the direct and indirect costs for the portion reasonably attributable to the asset and incurred for its use.

Tangible fixed assets are depreciated on a straight line basis, by applying rates reflecting their residual useful life.

If, regardless of the depreciation already accrued, there is a permanent loss of value, the asset is written down accordingly. If the causes of writedown cease to apply in subsequent periods, the original value of the asset is restored, net of the ensuing depreciation.

Depreciation is applied at 50% of the highest rate in the first year of operation of new fixed assets.

The rates applied are detailed in the relevant notes to the balance sheet.

Maintenance costs that lengthen an asset's useful life are written to directly increase the value of the asset itself.

Ordinary maintenance costs are fully charged to the income statement for the year in which they are incurred.

Tangible fixed assets purchased under financial leasing are stated under fixed assets at their historical cost, as provided for in the relevant International Accounting Standard (IAS n. 17), and depreciated at category-specific rates, while the related financial debt to leasing companies is recorded under financial liabilities.

The depreciation rates deemed representative of the useful lives of the assets are as follows:

- Buildings	3.00%
- Plant and machinery	12.50%
- Spare parts for plant and machinery	As per useful life of underlying asset
Industrial and commercial equipment	
- Coffee equipment	30.00%
- Internal vehicles	20.00%
Other assets	
- Electronic equipment	20.00%
- Office furniture and fittings	12.00%
- Vehicles	25.00%
- Lightweight constructions	10.00%
- Packaging	40.00%
- Moulding machines	40.00%
- Furnishings for trade fairs, etc.	33.33%
- Furnishings for Concept Bar	20.00%
- Laboratory equipment	40.00%

Intangible fixed assets

These assets are stated at purchase or production cost, including directly attributable additional charges, net of amortization recorded in previous periods and attributed directly to individual items.

If, regardless of the amortization already accrued, there is a permanent loss of value, the asset is written down accordingly. If the causes of writedown cease to apply in subsequent periods, the original value of the asset is restored, net of the ensuing amortization.

R&D costs are written in their entirety to the income statement for the year in which they are incurred unless they refer to specific, clearly defined products whose technical feasibility has been reasonably demonstrated and for which there is a future market and the possibility of recovering costs through future revenues. The original value is then amortized on a straight-line basis over five years, representing the useful life of the assets.

Industrial patents and other intellectual property rights include the cost of developing and registering industrial patents and data processing systems and are stated at acquisition or production cost. Such costs are amortized every year in relation to their residual useful life and legal duration.

Concessions, trademarks and similar rights are amortized on the basis of their residual useful life (10 years for trademarks).

The rates applied for each category of intangible fixed assets are as follows:

- Start-up and expansion expenses	3/5 years
- Research & development and advertising costs	5 years
- Industrial patent rights	10 years
- Know-how, intellectual property and internet rights	3/5 years
- Concessions, licenses, trademarks and similar rights	5/10 years
- Goodwill	5/20 years
- Other intangible fixed assets	2/3/4/5 years

Improvements to leased assets are amortized at rates depending on the duration of contracts.

Investments

Investments in non-consolidated subsidiaries are stated as required by art. 36, legislative decree 127 (09.04.91).

Investments in associates as defined by art. 2359 Civil Code are accounted for using the equity accounting method, whilst investments in other companies are stated at cost.

Inventories

Inventories are stated at the lower between purchase or production cost, on a weighted average cost basis, and the expected realisable value defined on the basis of the market trend. The expected realisable value takes account of any production costs still to be incurred and direct sales costs.

The value thus obtained is then adjusted, where possible, by way of the “stock obsolescence fund” to reflect stocks whose realisable value is expected to be less than cost.

Inventories that had been written down were restored to their original cost when the reasons for writing them down to their expected realisable value no longer applied.

Receivables

Receivables are stated at their expected realisable value. Nominal values are written down to the expected realisable value by means of the provision for bad debts, also taking into account general economic and industrial conditions and the country risk.

Receivables originally collectible within the period and subsequently becoming long-term receivables are stated under financial fixed assets.

Securities

Securities held as financial fixed assets till their natural maturity are stated at acquisition cost, plus any directly attributable additional charges.

No securities were written down as there were no permanent losses of value.

Securities held as current assets are stated at the lower between acquisition cost and realizable value.

Accruals and deferrals

Income and expenses involving two or more periods are booked on an accrual basis.

In the case of long-term accruals and deferrals, the conditions determining accrual/deferral were checked and adjustments made as necessary.

Provision for contingencies and other charges

Provisions are made to cover losses or payables that are either certain or likely to occur but whose amounts or date of occurrence could not be determined at year-end.

Such provisions are calculated on an accrual basis in accordance with the principles of prudence. No general provisions for contingencies without legal or constructive obligation were set up.

Contingencies are stated in the financial statements under the relevant provisions because they are deemed probable and the relative charges can be reasonably estimated.

Employee severance indemnity

Following the reform of the supplementary pension system introduced by legislative decree 252/2005, employee severance indemnity amounts accrued at 31st December 2006, reflecting the full liability towards employees under current legislation and labour agreements, are retained in the balance sheet as a provision and gradually extinguished through payments to employees leaving the Group, whereas employee severance indemnity amounts accruing thereafter to either pension funds or the national social security institute (INPS) are recorded to the income statement, on an accrual basis, reflecting amounts payable to the relative pension fund or national social security institute.

Payables

These are stated at face value and modified in the case of any returns or invoicing adjustments.

Grants to the capital account

Grants to the capital account are gradually written to the income statement over the asset's useful life as the relative amounts accrued become certain.

Recognition of revenues

Revenues from the sale of products are recognised at the time of transfer of ownership, which generally corresponds to delivery or shipment of goods.

Revenues of a financial nature and from supply of services are recognised on an accrual basis.

Revenues and income, charges and expenses relative to foreign currency operations are recorded at the exchange rates in force on the date on which the operations were transacted.

Income taxes for the year

Provisions for taxes are made on an accrual basis, and represent the following:

- provisions for taxes paid or to be paid for the period, calculated at current rates and according to current legislation;
- the amount of deferred tax assets or liabilities on temporary differences arising from or reversed in the period.

Deferred tax assets and benefits arising from fiscal losses carried forward to subsequent years are only stated when recovery of such amounts is reasonably certain, so a positive balance for deferred tax assets is only booked in the likelihood of sufficient future taxable income to absorb it, or only for those deferred tax assets that will be reversed in periods in which deferred tax liabilities for similar amounts occur.

In 2008, the Group parent company renewed its option for the "National Consolidated tax

return” system by virtue of its being a consolidated company. This enables consolidated companies to calculate their Corporate income tax (Ires) on the basis of the algebraic sum of the positive and negative taxable incomes of all consolidated companies, jointly with **Gruppo Illy SpA**, the latter being the consolidating company.

Business relationships and other mutual liabilities and obligations between the Group parent company and its subsidiaries are disciplined by the “*Regolamento di consolidato*” (Consolidation rules) for Group companies.

Tax liabilities are recorded under “*Due to parent companies*” net of prepayments, withholding taxes and tax credits in general.

Deferred Corporate income taxes (Ires) take into account temporary differences between assets and liabilities calculated on the basis of the accounting standards provided for by the Civil code and the related fiscal values. They refer exclusively to the Group parent company.

Current and deferred Regional income tax on productive activities (Irap) refers exclusively to the Group parent company.

Leased assets

Capital goods acquired under financial leasing are accounted for in the consolidated financial statements using the financial method, whereby they are recorded within tangible fixed assets and depreciated over their residual useful life, while the related financial debt is recorded within financial liabilities.

Guarantees, commitments, third party assets and risks

Risk relating to guarantees provided, whether unsecured or collateral, against third party debt is stated in the memorandum accounts for an amount equal to that of the guarantees themselves. The amount of third party debt guaranteed at the year-end, if less than that of the guarantee provided, is indicated in these Notes.

Commitments are stated in the memorandum accounts at nominal value, as appearing in the relevant documentation.

Risks likely to give rise to a liability are described in the explanatory notes and congruous provision is made to the provision for contingencies.

Risks that represent a mere possibility of a future liability are described in the Notes to the financial statements but no provision is made, in line with the relevant accounting standards.

Risks of a remote nature are not taken into consideration.

Financial instruments

The value of forward contracts not held to hedge specific assets or liabilities is restated at year-end with reference to the differential between the forward exchange rates applicable to the various types of contract at the balance sheet date and the contractual forward exchange rates; resulting differences are recorded to the income statement.

FOREIGN CURRENCY CONVERSION CRITERIA

Receivables and payables originally expressed in foreign currencies are recorded at the exchange rates in force when they arose and brought into line with the statutory year-end rates as published by the *European Central Bank* on 31st December 2009.

In particular, assets and liabilities that are not held as fixed assets and long-term financial receivables are stated at the year-end spot exchange rate. Gains and losses on conversion of receivables and payables are credited/debited to the income statement under item 17 bis “*Foreign currency exchange gains and losses*”.

Any net gains arising from adjustment of foreign currency items to year-end rates are recorded in the income statement. On approval of the financial statements and after consequent allocation of the result to the legal reserve, the portion of such net gains not absorbed by eventual losses for the year is written to a non-distributable reserve until subsequent realization.

Fixed assets in foreign currencies, on the other hand, are stated at the exchange rates in force at the time of their acquisition or at an eventually lower year-end rate if negative changes have caused a permanent loss of value of such fixed assets.

As required by art. 2427, 6-bis, Civil Code, significant effects, arising from changes in exchange rates between the year-end and the date the financial statements are prepared, are commented on in the Notes.

OTHER INFORMATION

Inter-company profits

Calculation of inter-company profits includes revenues from the sale of coffee (raw material and finished goods), kits and coffee machines between consolidated Group companies and in stock at 31/12/2009.

Membership of a group

The Company belongs to Gruppo Illy, the ultimate parent company being Gruppo Illy SpA, a company which, for the intents and purposes of art. 2497 and subs., Civil Code, does not exercise direction and coordination activity. The disclosure required by law was not, therefore, deemed necessary.

Elimination of inter-company receivables/payables and charges/revenues

Differences arising from elimination of intra-group receivables/payables and charges/revenues due to changing exchange rates (rate at time of operation and rate at time of consolidation) are written, respectively, to the income statement under “Foreign currency exchange gains and losses” in the case of eliminated receivables/payables and under “Translation difference reserve” in the case of eliminated charges/revenues.

Derogations

Pursuant to art. 2423-bis, final clause, Civil Code, the Company declares that it made no derogations to the foregoing in evaluating any of the asset and liability items. Similarly, pursuant to art. 2423, clause 4, the Company found no potential incompatibilities with a true and fair view of the financial statements, resulting from application of the provisions of law regarding the format and content of the income statement and balance sheet and evaluation criteria, such as to justify departure from them.

COMMENTS ON THE MAIN BALANCE SHEET ITEMS

FIXED ASSETS

INTANGIBLE FIXED ASSETS

Intangible fixed assets are as follows:

	<u>Values at</u> <u>31/12/2008</u>		<u>Values at</u> <u>31/12/2009</u>		
	<u>Net book value</u>	<u>Historical cost</u>	<u>Accumulated</u> <u>amortization</u>	<u>Net book value</u>	<u>Change</u>
Start-up and expansion expenses	194,838	646,839	479,163	167,675	(27,162)
Research & development and advertising costs	1,984,045	4,792,121	3,545,163	1,246,957	(737,088)
Industrial patent rights and intellectual property rights	3,185,603	15,154,046	12,372,864	2,781,182	(404,421)
Concessions, licenses, trademarks and similar rights	3,313,951	12,776,391	9,777,237	2,999,153	(314,798)
Goodwill	2,647,035	10,943,376	4,123,914	6,819,463	4,172,428
Intangible fixed assets under construction and advances	987,038	846,206	0	846,206	(140,832)
Other	<u>7,391,668</u>	<u>31,378,545</u>	<u>25,362,538</u>	<u>6,016,007</u>	<u>(1,375,661)</u>
Total intangible fixed assets	19,704,177	76,537,523	55,660,879	20,876,644	1,172,467

The Start-up and expansion expenses item shows an increase over the year due to the Group parent company's legal expenses relating to the investment in Enterprise Srl for an amount of Euro 23.5 thousand following the elimination of the investment.

The "Research & development and advertising costs" item shows an increase over the year due to the capitalization of expenses incurred by the Group parent company for R&D costs for restyling the X1 espresso machine for an amount of Euro 16.6 thousand.

The "Industrial patent rights and intellectual property rights" item shows an increase reflecting costs incurred by the Group parent company for the acquisition of rights on ideas and concepts to be applied to *concept illy espressamente* (Euro 60.0 thousand) and acquisition of patents (Euro 205.2 thousand).

The "Concessions, licenses, trademarks and similar rights" shows an increase mostly reflecting costs incurred by the Group parent company for an amount of some Euro 130.0 thousand on the Oracle licences relative to the Hyperion project and Euro 304.7 thousand for trademarks.

The negative change in the "Intangible fixed assets under construction and advances" item is the result of the increase by the Group parent company of Euro 226.3 thousand, net of the decrease totaling Euro 488.1 thousand for assets that entered service during the year, and the increase of Euro 120.9 thousand for the inclusion of I.T.A.CA Srl in the consolidation area.

The change in Goodwill is mainly related to:

- Euro 4,474.9 thousand for the goodwill emerging from the elimination of the investment in I.T.A.CA Srl, net of the related amortization totaling Euro 344.0 thousand;
- Euro 27.7 thousand for the amortization of the goodwill emerging from the elimination of the investment in Porto de Santos;
- Euro 4.9 thousand for the amortization of the goodwill emerging from the elimination of the investment in illy espresso Canada;
- Euro 47.8 thousand for the amortization calculated on consolidation of the *Fond du Commerce* of Espressamente France;
- Euro 101.6 thousand for the goodwill emerging from the elimination of the investment in Enterprise Srl net of the related amortization of Euro 25.4 thousand;
- Euro 400.0 thousand for the amortization of the goodwill arising from the Group parent company's acquisition of the Distripark division from G. Pacorini;
- Euro 200.0 thousand for the acquisition of the business line named Bon Sol Cafè S.L. by illycaffè SpA Sucursal en Espana net of the amortization of the period amounting to Euro 17.2 thousand.

The increase in Other intangible fixed assets refers mainly to costs incurred by the Group parent company relative to the implementation of the JDE IT system in France and in The Netherlands (Euro 704.1 thousand), the Hyperion project (Euro 400.7 thousand), the Direct Channel Europa project, the rationalization and simplification of the Sales & Distribution process (Euro 423.0 thousand) as well as the *E-Shop* in Europe and *illystore* on *i-phone* projects. In addition, the increase also reflects costs incurred by Ilko coffee International Srl for leasehold improvements made at the Milan offices where the company is based (Euro 77.5 thousand).

Revaluations and writedowns over the year

Art. 2427, no. 3-bis, as amended by decree law 310/2004 was applied, and no writedowns of intangible fixed assets were made.

TANGIBLE FIXED ASSETS

Tangible fixed assets break down as follows:

	<u>Values at</u> <u>31/12/2008</u>			<u>Values at</u> <u>31/12/2009</u>		
	<u>Net book</u> <u>value</u>	<u>Historical cost</u>	<u>Revaluations</u>	<u>Accumulated</u> <u>depreciation</u>	<u>Net book value</u>	<u>Change</u>
Land and buildings	42,313,940	49,802,883	1,187,576	8,522,770	42,467,690	153,750
Plant and machinery	21,438,862	55,947,899	4,210,272	39,089,312	21,068,858	(370,004)
Industrial and commercial equipment	11,360,367	33,432,689	0	20,311,976	13,120,713	1,760,346
Other assets	4,822,078	24,218,007	0	19,581,949	4,636,058	(186,020)
Tangible fixed assets under construction and advances	<u>1,670,544</u>	<u>2,621,100</u>	<u>(274,579)</u>	<u>0</u>	<u>2,346,521</u>	<u>675,977</u>
Total tangible fixed assets	81,605,791	166,022,578	5,123,269	87,506,007	83,639,840	2,034,048

The main increases over the year were as follows:

- land and buildings: mainly reflecting costs incurred by the Group parent company (Euro 842.9 thousand) relating to capitalization of internal work on buildings, including the construction of meeting rooms in Palazzina H, 2nd floor, extension of the Hyper Espresso System department based in the plant in Via Flavia and completion of the improvement works to the buildings of “Distripark”. In addition, following the inclusion of Enterprise Srl in the consolidation area, the item increased by Euro 127.8 thousand relative to the building owned by the Company and to the allocation to the “building” category of goodwill arising from elimination of the investment on consolidation (Euro 404.1 thousand);
- plant and machinery: the increase mostly reflects Group parent company costs for capitalization of internal work on production plant (Euro 2,858.7 thousand); in particular, the new plant for the transport of ground coffee, the internal transfer of plant and machinery, the extension of the Hyper Espresso System business department and the production of the new scales. Moreover, the item increased following the inclusion, in the consolidation area, of Enterprise Srl and I.T.A.CA Srl for amount of Euro 33.7 thousand and Euro 324.2 thousand respectively. In addition, the inclusion of the leasing contracts signed by I.T.A.CA Srl for an amount of Euro 90.0 thousand;
- industrial and commercial equipment: the increase reflects the Group parent company’s purchase of coffee professional machines to loan for use and/or lease to clients (Euro 2,166.1 thousand) and of moulding machines mostly connected to the Metodo Iperespresso acquired by the Group parent company (Euro 458.1 thousand). The item also increased following the purchase of coffee equipment by the French subsidiary (Euro 159.0 thousand), the US subsidiary (Euro 679.8 thousand), the Canadian subsidiary (Euro 50.7 thousand) and the Group parent company’s accounting of leasing contracts using the financial method (IAS 17) (Euro 4,210.8 thousand);

- other assets: the item reflects investments mostly by the Group parent company in electronic equipment (Euro 218.2 thousand), office furniture and fittings (Euro 141.9 thousand), laboratory equipment (Euro 20.2 thousand), trade fair and event furnishings (Euro 241.6 thousand), artworks (Euro 144.2 thousand), lightweight constructions (Euro 336.5 thousand) and Concept Bar furnishings (Euro 6.0 thousand). The increase also reflects purchasing by the US subsidiary, including electronic equipment (Euro 43.4 thousand) and vehicles (Euro 17.0 thousand), the Dutch subsidiary for office equipment (Euro 22.3 thousand) and vehicles (Euro 112.0 thousand) and, finally, Porto de Santos Comercio for vehicles (Euro 35.3 thousand).

“Tangible fixed assets under construction and advances” refers to uncompleted work by the Group parent company (Euro 1,854.1 thousand), mainly on extension and upgrading of production plant, and to the initial leasing instalment paid by I.T.A.CA Srl and relating to a facility (Euro 240.0 thousand).

Over the year there were disposals amounting to Euro 811.3 thousand, of which Euro 618.8 thousand relating to the Group parent company:

- plant and machinery: Euro 46.3 thousand;
- coffee equipment: Euro 377.8 thousand;
- other assets: electronic equipment Euro 28.4 thousand, vehicles Euro 34.0 thousand and trade fair and event furnishings Euro 23.3 thousand.

To these must be added illycaffè North America’s disposal of coffee equipment (Euro 124.0 thousand).

The table below details Group parent company assets stated in the balance sheet at 31st December 2009 which were revalued in prior years in compliance with the following laws:

- Land and buildings		
- value at cost	Euro	44,770,447
- revaluation under law 72/83	Euro	465,564
- revaluation under law 413/91	Euro	328,132

	Euro	45,564,143
- Plant, machinery and tools		
- value at cost	Euro	54,013,317
- revaluation under law 342/00	Euro	4,210,272

	Euro	58,223,589

Grants to the capital account

For the year ended 31/12/2009 no grants to the capital account were received by the Group parent company.

Regarding grants obtained in previous years, these were recorded in the income statement on the basis of the asset's useful life, as recommended by IAS 20, on an accrual basis.

Grants recorded in the income statement by the Group parent company amounted to Euro 211.1 thousand.

Obtainment of grants under law 488/1992, on the basis of temporary concession decree no. 101548 dated 12/02/02, entailed the following restrictions on the free use of the assets:

art. 3 b) states that the company enjoying the facilities is under obligation not to remove the subsidised tangible or intangible fixed assets before the lapsing of five years from the date of entry into service.

Failure to observe the clauses that contemplate such restraints allows the subsidising authority to claim repayment of the subsidy.

FINANCIAL FIXED ASSETS

Equity investments

Equity investments are as follows:

	<u>Balance at</u> <u>31/12/2009</u>	<u>Balance at</u> <u>31/12/2008</u>	<u>Change</u>
Subsidiaries	0	0	0
Associates			
- Dachan Espressamente illy (China) Ltd.	439,998	500,703	(60,706)
- Cafè Espressamente illy (HK) Ltd.	212,058	254,996	(42,938)
- Biosensor Technologies Srl	0	2,980	(2,980)
- I.T.A.CA Srl	0	8,203,022	(8,203,022)
- Espressamente illy Taiwan Ltd.	120,130	232,038	(111,908)
	772,185	9,193,740	(8,421,555)
Other companies			
- CAAF Interreg.Dipendenti Srl	5	5	0
- Qualicaf Trieste Srl	1,420	1,420	0
- Kafea Emporiki Techniki S.A.	89,000	89,000	0
- OCM Srl	2,169	2,169	0
- CONAI	1,605	1,605	0
- ERP Italia Srl - RAEE	4,000	4,000	0
- Espresso Caffè Vertrieb GmbH	87,278	87,278	0
- Illycaffè Shanghai	16,523	16,523	0
- Illycaffè Thalwil AG	3,162,840	2,892,788	270,051
- Euro Foods Brands	59,139	59,139	0
- Consorzio E.S.E. and Conai	3,533	3,533	0
	3,427,513	3,157,461	270,051
	4,199,698	12,351,201	(8,151,503)

Associates include the joint ventures DaChan Espressamente Ltd China and Cafè de Espressamente Ltd. where the subsidiary illy Bar Concept SpA has a 30% stake as well as the joint venture Espressamente illy Taiwan Ltd, in which the Hong Kong subsidiary has a 30% stake.

It should be noted that the Group parent company has a call/put agreement with the shareholders of illycaffè AG (Thalwil) relating to the acquisition of two shares for SFr 160,000 by 3rd October 2012. It also underwrote a call option on 134 shares at prices depending on whether the option is exercised before or after 31st December 2011.

In January 2009 the Group parent company acquired five illycaffè AG shares for SFr 400,000 and a further four shares for SFr 320,000 in January 2011.

Among Associates, it is worth reminding that Biosensor Technologies Srl was winded up.

No investments in “Other companies” were impaired due to permanent losses of value and there was no “reversal of impairment”.

Receivables

This item includes medium and long-term receivables and showed the following situation at the year-end.

	Receivables by expiry date					
	<u>Balances at</u>				<u>Balances at</u>	<u>Change</u>
	<u>31/12/2008</u>				<u>31/12/2009</u>	
	<u>Total</u>	<u>Total</u>	<u>within 1</u>	<u>from 1 to 5</u>	<u>beyond 5</u>	
Financial receivables from subsidiaries	0	0	0	0	0	0
Financial receivables from associates	0	103,972	103,972	0	0	103,972
Receivables from others	<u>3,511,386</u>	<u>3,024,514</u>	<u>909,941</u>	<u>2,106,377</u>	<u>8,195</u>	- <u>486,873</u>
Total receivables	3,511,386	3,128,485	1,013,913	2,106,377	8,195	- 382,901

“Financial receivables from associates” (Euro 104.0 thousand) relates to the non interest bearing loan granted on 28th October 2009 by Illy Bar Concept SpA to Cafè de Espressamente Ltd. The “Receivables from others” item includes collaterals totaling Euro 526.3 thousand (mostly Euro 142.6 thousand from the Group parent company, Euro 158.5 thousand from illycaffè North America inc., Euro 39.7 thousand from illycaffè France SAS, Euro 134.0 thousand from Ilko Coffee International Srl and Euro 47.6 thousand from Espressamente France SAS), dividend amounts due to the Group parent company and declared in 2008 and 2009 by Kafea Emporiki Techniki (Euro 524.4 thousand), receivables from clients relating to financing activities by Bar Finance International SpA (Euro 703.0 thousand) and loans provided by illycaffè Nederland B.V. (Euro 100.0 thousand) relating to the Horeca and Espresso World Shop project.

Treasury shares

The amount (Euro 285.6 thousand) represents 105,000 of the Company's own shares, with a nominal value of Euro 6 per share, acquired to be held on a long-term basis against possible share swap operations with third parties. Pursuant to the law, the percentage is within the limits set by art. 2357 and subsequent of the Civil Code, while a reserve restricted to distribution was set up, with the same amount, under shareholders' equity.

CURRENT ASSETS

INVENTORIES

Inventories at the year-end are as follows:

	<u>Balance at</u> <u>31/12/2009</u>	<u>Balance at</u> <u>31/12/2008</u>	<u>Change</u>
Raw materials	41,175,703	44,089,361	-2,913,658
Semi-finished products	180,522	143,797	36,725
Finished products	24,236,225	25,035,667	-799,443
Advances	<u>1,723,263</u>	<u>134,584</u>	<u>1,588,680</u>
Total inventories	67,315,713	69,403,409	-2,087,696

The Euro 2,087.7 thousand decrease is imputable both to reduced purchases and to the fall in the purchase price of raw materials.

In 2009, the Group parent company made a writedown of its stocks for an amount of Euro 783.0 thousand and used the related provision for an amount of Euro 711.2 thousand. Moreover, Magic L'Espresso wrote down its stocks for an amount of Euro 169.0 thousand. The allocation to the obsolescence provision was in respect of slow moving goods and/or obsolete products.

RECEIVABLES

Trade receivables

Trade receivables at year-end were as follows:

	<u>Balances at</u> <u>31/12/2008</u>		<u>Balances at</u> <u>31/12/2009</u>			
	Net value	Gross value	Provision for bad debts	Provision for discounts	Net value	Change
Trade receivables within 12 months	53,662,779	62,286,372	2,769,324	1,196,838	58,320,210	4,657,431
Trade receivables beyond 12 months	<u>219,164</u>	<u>240,734</u>	<u>0</u>	<u>0</u>	<u>240,734</u>	<u>21,570</u>
	53,881,942	62,527,106	2,769,324	1,196,838	58,560,944	4,679,001

Trade receivables are stated at their expected realisable value.

The increase on the previous year (Euro 4,679.0 thousand) is due to the increase in Group sales over the year and to the extension of the consolidation area.

Trade receivables beyond 12 months (Euro 240.7 thousand) refers to amounts due to the subsidiary Illy Bar Concept SpA following the sale of the via delle Torri shop in Trieste.

The “Provision for trade discounts” amounting to Euro 1,196.8 thousand refers to the accruals made by the Group parent company for Euro 497.3 thousand and by its subsidiaries for Euro 699.5 thousand. Provision for bad debts includes Euro 2,059.4 thousand relative to the Group parent company and Euro 709.9 thousand to its subsidiaries.

Receivables from parent companies

This item (Euro 254.0 thousand) includes receivables due to Bar Finance International (Euro 21.3 thousand) and Illy Bar Concept SpA (Euro 226.3 thousand) from Gruppo Illy SpA following the option exercised in 2005 to join the “National Consolidated tax return” system. Also under this item are booked trade receivables due from Gruppo Illy SpA to the Group parent company (Euro 6.4 thousand).

Receivables from others

Receivables from others are as follows:

		Balance at 31/12/2009			
	Balance at 31/12/2008	Within 1	From 1 to 5	Total	Change
Receivables from tax authorities	11,581	0	0	0	-11,581
Financial receivables	122,859	18,479	271,484	289,963	167,104
Receivables, advances on supply of services	0	2,266	0	2,266	2,266
Others	<u>2,676,768</u>	<u>3,118,772</u>	<u>2,397</u>	<u>3,121,168</u>	<u>444,400</u>
Total	2,811,208	3,139,517	273,881	3,413,397	602,190

The “*Others*” item includes the residual portion of a grant from the Ministry of Productive Activities (Euro 532.6 thousand) for a plant, connected to an investment programme amounting to Euro 17,507.3 thousand, and Group parent company receivables from the tax authorities (Euro 294.4 thousand) in connection with payments made following a tax audit on the 2000 fiscal year that has become due following the positive outcome of the litigation.

The “*Financial receivables*” item consists of loans made by the Group parent company, illycaffè North America Inc. and Magic L’Espresso SL to employees and agents.

Tax receivables

The amount of Euro 2,331.4 thousand mostly refers to the Group parent company (Euro 1,277.3 thousand relating to tax credit on R&D for an amount of Euro 919.6 thousand and VAT receivable for Euro 355.3 thousand), illycaffè SpA Niederlassung Deutschland (Euro 2.5 thousand due by the local tax authority), VAT amounts due to the French subsidiary (Euro 27.7 thousand) and Ilko Coffee International Srl (Euro 189.0 thousand), the tax credit to Ilko Hellenic Partners GmbH (Euro 103.6 thousand), the VAT credit to I.T.A.CA Srl (Euro 371.1 thousand) and to Magic L'Espresso SL (Euro 95.1 thousand), the tax credit to Porto de Santos and Experimental Agricola do Brasil for an amount of Euro 101.9 thousand and Euro 50.3 thousand respectively.

Deferred tax assets

Deferred tax assets were recognised on the grounds that it is reasonable that, in the periods in which the deductible temporary differences for which deferred tax assets were booked reverse, the taxable income will be no less than the amount of the differences to be offset.

The amount booked (Euro 5,658.2 thousand) refers to the Group parent company (Euro 2,866.9 thousand), illycaffè North America Inc. (Euro 1,162.7 thousand), I.T.A.CA Srl (Euro 28.8 thousand), Ilko Coffee International Srl (Euro 391.2 thousand) and consolidation adjustments (Euro 929.6 thousand).

	31/12/2009			31/12/2008		
	Amount of temporary differences	Fiscal effect	Rate	Amount of temporary differences	Fiscal effect	Rate
Writedown of account receivables	1,420,397	390,609	31.4%	409,503	121,667	31.4%
Depreciation of tangible assets (portion of grants)	450,209	141,365	31.4%	542,985	170,497	31.4%
Amortization of trademarks	929,597	291,894	31.4%	674,955	211,936	31.4%
Amortization of goodwill	1,482,332	465,453	31.4%	1,035,346	325,099	31.4%
Capital losses and writedowns of investments	0	0	27.5%	0	0	27.5%
Foreign exchange losses (unrealized)	0	0	27.5%	1,105,216	303,934	27.5%
Charges arising from buyer incentives operations	364,210	100,341	31.4%	1,495,730	454,333	31.4%
Other provisions not provided for by tax laws	3,965,820	1,134,630	31.4%	2,697,355	804,488	31.4%
4/15 entertainment expenses	22,960	7,212	31.4%	48,246	15,148	31.4%
Directors' emoluments	1,219,500	335,363	27.5%	1,588,966	436,970	27.5%
Total deferred tax assets, Group parent company	9,855,025	2,866,867		9,598,302	2,844,072	
Deferred tax assets deriving from tax losses and other temporary differences of Ilko Coffee International Srl		391,162			127,648	
Deferred tax assets deriving from tax losses and other temporary differences of I.T.A.CA Srl		28,820			0	
Deferred tax assets deriving from tax losses and other temporary differences of Illy espresso Canada Inc.		14,546			0	
Deferred tax assets deriving from tax losses and other temporary differences of Magic L'Espresso SL		264,443			0	
Deferred tax assets deriving from tax losses and other temporary differences of Illycaffè France SAS		0			177,515	
Deferred tax assets deriving from tax losses and other temporary differences of Illycaffè North America Inc.		1,162,730			1,244,786	
Deferred tax assets arising from consolidation adjustments		929,620			839,780	
Total consolidated deferred tax assets		5,762,302			5,233,801	

CURRENT FINANCIAL ASSETS

This includes the 100% interest in the subsidiary **Eltrade Srl** (Euro 824.0 thousand) acquired in 2005 by the Group parent company in order to obtain a building adjacent to the factory.

The “*Other securities*” item includes amounts receivable by Experimental Agricola do Brasil and Porto de Santos (respectively Euro 507.1 thousand and Euro 1,407.7 thousand) for highly liquid investments.

CASH AND CASH EQUIVALENTS

In the attached balance sheet this item is grouped in accordance with the provisions of art. 2423-ter, clause 2, Civil Code.

The table below details the relevant balances:

	<u>Balance at</u> <u>31/12/2009</u>	<u>Balance at</u> <u>31/12/2008</u>	<u>Change</u>
Bank and postal deposits	8,780,284	7,390,858	1,389,427
Cheques	0	0	0
Cash and cash equivalents	<u>33,433</u>	<u>38,271</u>	<u>(4,838)</u>
	8,813,718	7,429,129	1,384,589

The balance represents cash and cash equivalents at year-end.

ACCRUED INCOME AND PRE-PAID EXPENSES

At 31st December 2009 this item stood as follows:

	<u>Balance at</u> <u>31/12/2009</u>	<u>Balance at</u> <u>31/12/2008</u>	<u>Change</u>
<u>Accrued income</u>			
- Interest rate swaps	10,080	497,092	-487,012
- Other	<u>77,161</u>	<u>62,841</u>	<u>14,319</u>
Total accruals	87,241	559,933	-472,693
<u>Pre-paid expenses</u>			
- Insurance premiums	88,604	151,672	-63,068
- IT system assistance expenses	11,716	123,689	-111,973
- Information expenses	39,896	35,211	4,685
- Software licenses	68,084	129,940	-61,856
- Telephone costs	0	8,250	-8,250
- Advertising expenses	11,909	168,211	-156,302
- Royalties and promotion contributions	1,017,533	1,540,630	-523,097
- Other	<u>546,544</u>	<u>593,281</u>	<u>-46,736</u>
Total deferrals	1,784,286	2,750,883	-966,597
Total accruals and deferrals	1,871,527	3,310,816	-1,439,289

At 31st December 2009 Group parent company accruals and deferrals falling due beyond five years totalled Euro 181.8 thousand.

COMMENTS ON THE MAIN BALANCE SHEET LIABILITIES

SHAREHOLDERS' EQUITY

Commented on below are the main items under shareholders' equity and the changes therein.

SHARE CAPITAL

The fully paid share capital at 31st December 2009 is made up of 1,050,000 ordinary shares, par value Euro 6.00 each, totalling Euro 6,300.0 thousand.

The table below is the reconciliation between the shareholders' equity and result for the year of the Group parent company and consolidated shareholders' equity and result for the year at 31st December 2009.

RECONCILIATION BETWEEN THE SHAREHOLDERS' EQUITY AND PROFIT OF ILLYCAFFE' SPA AND CONSOLIDATED SHAREHOLDERS' EQUITY AND PROFIT

	<u>Shareholders' equity</u>	<u>Income statement</u>
Group parent company	96,799,088	7,400,567
- Interest in shareholders' equity and profits of consolidated companies net of book value of investments	(17,752,916)	(2,534,768)
- Elimination of intra-Group dividends	0	(1,500,000)
- Effect of financial leasing	51,668	(17,108)
- Elimination of writedowns of consolidated equity investments and receivables in consolidated companies	5,418,775	2,626,859
- Effect of transfer of business line	(127,878)	191,089
- Elimination of profits on sales to subsidiaries included in stocks, net of tax effect	(3,205,716)	(249,613)
- Elimination of inter-company receivables/payables	131,566	384,935
- Elimination of inter-company costs and revenues	0	(157,150)
- Equity accounting method for investments in associates	(459,299)	19,927
- Goodwill arising from elimination of investments in subsidiaries	8,159,340	(566,028)
- Effect of incorporation of the German branch	(79,610)	99,467
- Amortisation <i>Fond du Commerce</i> of Espressamente France	(143,333)	(47,778)
- Other consolidation adjustments	(25,161)	0
Consolidated Shareholders' equity and result for year (including minority interest)	88,766,524	5,650,399
Minority interest	408,175	440,872
Consolidated Shareholders' equity, Group and result for year	89,174,699	5,209,527

REVALUATION RESERVES

Revaluation reserves recorded by the Group parent company at 31st December 2009 (Euro 6,308.9 thousand) contain the positive balances of monetary revaluations operated pursuant to the following laws:

	<u>Balance at 31/12/2009</u>	<u>Balance at 31/12/2008</u>
Law 72, 19.3.83	556,121	556,121
Law 413, 30.12.91	284,024	284,024
Law 342, 21.11.00	<u>5,468,818</u>	<u>5,468,818</u>
	6,308,963	6,308,963

The revaluation reserve pursuant to law 413/1991 is net of Euro 54.2 thousand of substitute tax.

The revaluation reserve pursuant to law 342/2000 is already net of Euro 1,282.9 thousand of substitute tax.

RESERVE FOR TREASURY SHARES

At 31st December 2009 the reserve for treasury shares amounted to the value of the Group parent company's treasury shares recorded under Financial fixed assets pursuant to art. 2357, Civil Code.

The reserve is restricted to distribution as long as the shares are held by the company.

OTHER RESERVES

Other reserves are as follows:

	<u>Balance at 31/12/2009</u>	<u>Balance at 31/12/2008</u>	<u>Change</u>
- Extraordinary reserve	72,878,931	70,164,183	2,714,748
- Reserve for grants to the capital account	797,731	797,731	0
- Other reserves	<u>0</u>	<u>0</u>	<u>0</u>
Total Other reserves	73,676,662	70,961,914	2,714,748

The "Extraordinary Reserve" shows an increase in 2009 by Euro 2,714.7 thousand following allocation of profits for 2008 by the Group parent company.

The "Reserve for grants to the capital account", pursuant to art. 55, presidential decree 917, represents 50% of grants disbursed in prior years, as required under the then current art. 55 TUIR on capital account grants.

PROFIT FOR THE YEAR

Profit for the year in 2009 amounts to Euro 5,209.5 thousand, down Euro 2,854.0 thousand on the previous year.

PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES

The table below details the individual provisions:

	<u>Balance at</u> <u>31/12/2009</u>	<u>Balance at</u> <u>31/12/2008</u>	<u>Change</u>
Provision for taxation:			
- deferred taxes	2,899,238	3,722,820	- 823,582
- pending tax litigation	710,774	300,356	410,418
	<u>3,610,012</u>	<u>4,023,176</u>	- 413,163
Other provisions:			
- agents' leaving indemnity	1,777,886	1,958,479	- 180,593
- product warranty	685,431	477,354	208,077
- returned goods	181,270	115,649	65,621
- buyer incentives on quantities	619,432	0	619,432
- other funds	<u>1,683,036</u>	<u>2,094,468</u>	- 411,432
	<u>4,947,053</u>	<u>4,645,950</u>	301,104
Total provision for contingencies and other charges	8,557,066	8,669,126	- 112,060

The “*Provision for deferred taxes*” refers exclusively to deferred tax liabilities, while deferred tax assets are recorded in “Deferred tax assets”. The balance is the result of the provision for deferred taxes by the Group parent company (Euro 2,481.4 thousand and Euro 417.9 thousand) due to consolidation adjustments relating, in particular, to the elimination of inter-company profit (with a positive effect of Euro 622.8 thousand) and to the creation of a provision for deferred taxes following reclassification under “Buildings” of goodwill arising from the writeback of the equity investment with illy Real Estate Srl and Enterprise Srl for an amount of Euro 883.7 thousand and Euro 125.0 thousand respectively.

	31/12/2009			31/12/2008		
	Amount of temporary differences	Fiscal effect	Rate	Amount of temporary differences	Fiscal effect	Rate
Accelerated depreciation	8,119,409	2,435,256	31.4%	10,382,745	3,228,028	31.4%
Unrealized exchange gains	-	-		-	-	
Unrealized capital gains	33,708	9,798	31.4%	51,330	15,716	31.4%
Dividends stated as accrued	121,060	36,310	27.5%	21,843	6,007	27.5%
Total Group parent company deferred taxes	8,274,177	2,481,364		10,455,918	3,249,751	
Deferred taxes arising from consolidation adjustments		417,877			473,070	
Total consolidated deferred taxes		2,899,237			3,722,821	

The “*Provision for pending tax litigation*” item is up on the previous year’s figure following a provision made by the Group parent company (Euro 500.4 thousand net of the used amount of Euro 90.0 thousand).

The “*Agents’ leaving indemnity provision*”, standing at Euro 1,777.9 thousand, refers exclusively to Group parent company provisions for termination of agency relationships on the Company’s initiative or in the event of death, permanent invalidity or retirement of the agent. Indemnity is not due if the relationship is terminated on the agent’s initiative or for just cause. Allocations to the provision are made in accordance with national labour agreements, which are referenced in the contracts stipulated with agents.

The “*Provision for returned goods*” item (Euro 181.3 thousand) refers to the Group parent company and relates to the economic effect of goods delivered in 2009 and returned between the beginning of 2010 and the date of approval of the draft financial statements.

The “*Product warranty provision*” (Euro 685.4 thousand) is made by the Group parent company to cover sales of espresso machines under guarantee.

The “*Other provisions*” item, amounting to Euro 1,683.0 thousand refers mainly to risks recorded in the financial statements of the Group parent company (Euro 1,291.4 thousand). The remaining Euro 391.6 thousand includes provisions made by individual subsidiaries (Euro 22.0 thousand by Illy Bar Concept SpA, Euro 75.0 thousand by the French subsidiary, Euro 250.0 thousand by Ilko Coffee International Srl and Euro 22.1 thousand by I.T.A.CA Srl. It is worth noting that in the previous year the item also included the *Buyer incentive on quantities provision* for an amount of Euro 2,050.0 thousand relative to the *illy lovers* buyer incentive programme of the Group parent company.

EMPLOYEE SEVERANCE INDEMNITY RESERVE

Movements over the year were as follows:

Balance at 1/1/2009	4,074,782
Increases for extension of the consolidation area	23,527
Amounts accrued and written to the income statement	110,111
Amounts paid out during the year	<u>(260,885)</u>
Balance at 31/12/2009	3,947,534

The balance represents the Company's current obligation as of 31/12/2009 towards its personnel employed at year-end, net of any advance payments made.

PAYABLES

Commented on below are the various accounts and movements in them over the year.

Amounts due to banks

Amounts due to banks are as follows:

	<u>Balance at 31/12/2008</u>		<u>Balance at 31/12/2009</u>			
	<u>Total</u>	<u>Within 1</u>	<u>Falling due (years) From 1 to 5</u>	<u>Beyond 5</u>	<u>Total</u>	<u>Change</u>
Total	99,035,010	57,256,973	25,820,120	16,009,682	99,086,774	51,764

The table below details the conditions of medium/long-term loans contracted by Group parent company and Illy Real Estate Srl:

- illycaffè SpA

Medium/long-term payables to banks	Residual amount	Opening date	Maturity	Pre- amortization	Instalments	Rate (%) at 31/12/2009
Unicredit	2,000,000	14/12/2005	31/12/2010		6 monthly	1.800
Unicredit	17,474,643	28/12/2007	31/12/2017	6 months	6 monthly	1.900
Banca Intesa	2,000,000	31/07/2006	31/07/2011		6 monthly	1.565
Friulcassa	20,000,000	25/01/2006	23/12/2010		bullet	1.470
Banca Nazionale del Lavoro	20,000,000	20/06/2008	31/12/2018	18 months	6 monthly	2.007
Banca Nazionale del Lavoro	10,000,000	16/12/2009	16/08/2010		bullet	2.002
Banca Nazionale del Lavoro	1,000,000	30/12/2005	30/12/2010		6 monthly	1.784
Banca Popolare Friuladria	6,750,000	10/03/2009	30/06/2014	6 months	6 monthly	2.840
TOTAL	79,224,643					

- Illy Real Estate Srl

Medium/long-term payables to banks	Residual amount	Opening date	Maturity	Pre-amortization	Instalments	Rate (%) at 31/12/2009
BNL nr 6074690	206,385	31/12/2004	30/06/2014		6 monthly	2.083
BNL nr 531/5	110,526	31/07/2003	31/01/2013		6 monthly	2.474
TOTAL Illy Real Estate	316,911					

Payables to banks rose by Euro 51.8 thousand. The increase is attributable to the extension of the consolidation area net of the higher loan repayments made during the year compared to the new loans raised by the Group parent company and Illy Real Estate Srl.

In 2009 the Group parent company contracted new loans amounting to Euro 18,800.0 thousand and made loan repayments totaling Euro 10,531.3 thousand (amounts falling due in the year and transfer of certain short-term amounts to medium/long-term).

Certain medium/long-term loans contracted over the years include covenants tied to the results of the consolidated financial statements at 31st December of each year. If such covenants are not fulfilled, banks are entitled to demand accelerated repayment of the residual portion of the loan disbursed. On the basis of the consolidated financial statements at 31st December 2009 and the equity ratios cited in said loan covenants, the Company does not believe there are any critical situations capable of undermining its creditworthiness with banks.

Amounts due to other financial institutions

Amounts due to other financial institutions are as follows:

	<u>Balance at 31/12/2008</u>		<u>Balance at 31/12/2009</u>			
	<u>Total</u>	<u>Within 1</u>	<u>Falling due (years)</u>		<u>Total</u>	<u>Change</u>
			<u>From 1 to 5</u>	<u>Beyond 5</u>		
FRIE	10,600,638	1,958,898	6,341,093	0	8,299,990	-2,300,648
Other financial institutions	5,751,333	2,465,333	5,104,091	0	7,569,424	1,818,090
	-----	-----	-----	-----	-----	-----
Total	16,351,972	4,222,021	11,445,184	0	15,667,205	-684,767

The “*Amounts due to other financial institutions*” relates to a FRIE loan (no. 4000112) to the Group parent company (3.5% fixed annual rate, repayable in 20 six-month deferred straight-line instalments, maturity 2010). The loan is secured by a property mortgage and liens on buildings and plant.

In 2009, the item showed a decrease of Euro 701.8 thousand due to re-payments made in the period.

The item also includes FRIE loan no. 4043810 (Euro 13,436.4 thousand), with a variable 6-month Euribor rate reduced by 20%, maturity 2014, that the Group parent company took over in 2006 following the acquisition of Distripark. The loan is secured by a property mortgage. The amount decreased over the year through repayment of the instalment falling due (Euro 1,580.8 thousand).

The item also includes the FRIE loan relative to Illy Real Estate Srl (Euro 36.1 thousand), maturity 01/01/2011 and repayable over 20 6-month instalments.

Finally, the “*Other financial institutions*” item includes financial payables on leased tangible fixed assets, which are accounted for in the consolidated statements using the financial method (IAS 17), and the residual portion of loans contracted by the joint ventures Ilko Coffee International Srl and Ilko Hellenic Partners GmbH not eliminated following application of the proportional method of consolidation and restated under this item as required by IAS 17.

Trade payables

"*Trade payables*" are stated net of commercial discounts, whereas cash discounts are booked on payment. The nominal value of such payables is adjusted in the case of returns or allowances (invoicing adjustments) as agreed with the counterpart.

Amounts due to parent companies

This item includes the IRES debt of the Group parent company (Euro 583.4 thousand).

Amounts due to tax authorities

	<u>31/12/2009</u>	<u>31/12/2008</u>	<u>Change</u>
Income tax for the year	408,482	279,904	128,578
Withholding tax	0	560	-560
VAT	502,643	576,934	-74,290
IRPEF (personal income tax)	1,370,866	1,217,400	153,465
Other taxes	<u>35,647</u>	<u>272,741</u>	<u>-237,094</u>
	2,317,638	2,347,539	-29,901

Amounts due to social security institutions

This item refers to year-end payables due from Group companies and employees on wages and salaries for December 2009, plus the charge for social security contributions relating to the Group parent company's sales network.

Other payables

The Other payables item breaks down as follows:

	<u>Balance at</u> <u>31/12/2009</u>	<u>Balance at</u> <u>31/12/2008</u>	<u>Change</u>
Employees	4,836,876	5,845,118	-1,008,242
Goods to deliver	20,056	97,526	-77,471
Derivatives	992,118	579,028	413,090
Other	<u>153,613</u>	<u>93,707</u>	<u>59,906</u>
	6,002,662	6,615,379	-612,717

The fall in “Employees” (Euro 1,008.2 thousand) is imputable to the Group parent company (Euro 471.4 thousand), to the Dutch subsidiary (Euro 77.8 thousand) and to the US subsidiary illycaffè North America Inc. (Euro 363.5 thousand).

Amounts falling due beyond the next period

The table below details payables falling due beyond twelve months:

	<u>Falling due</u>		
	<u>from 1 to 5 years</u>	<u>beyond 5</u> <u>years</u>	<u>Total</u>
Banks	25,820,120	16,009,682	41,829,802
Other financial institutions	<u>11,445,184</u>	<u>0</u>	<u>11,445,184</u>
	37,265,304	16,009,682	53,274,985

ACCRUED LIABILITIES AND DEFERRED INCOME

At 31st December 2009 accruals and deferrals are as follows:

	<u>Balance at</u> <u>31/12/2009</u>	<u>Balance at</u> <u>31/12/2008</u>	<u>Change</u>
<u>Accrued liabilities</u>			
Interest payables	191,446	788,906	(597,460)
Interest payables on interest rate swaps	58,686	474,587	(415,901)
Commissions	0	0	0
Guarantees	0	0	0
Others	<u>96,881</u>	<u>140,747</u>	<u>(43,866)</u>
Total accruals	347,013	1,404,240	(1,057,227)
<u>Deferred income</u>			
Grants	596,856	807,980	(211,124)
Interest on loans	0	0	0
Others	<u>214,398</u>	<u>350,491</u>	<u>(136,093)</u>
Total deferrals	811,254	1,158,471	(347,217)
Total accruals and deferrals	1,158,267	2,562,711	1,404,444

The “Grants” item includes grants disbursed in prior years by Fondo Trieste for capital contribution to the Group parent company in connection with investments and a subsidy by the Ministry of Productive Activities for a plant, of which Euro 199.1 thousand with a duration of over five years.

The “*Other deferred income*” item refers mainly to Illy Real Estate Srl (Euro 140.8 thousand) in connection with amounts invoiced in advance to Progetto 3000.

MEMORANDUM ACCOUNTS

Guarantees provided

This item includes guarantees provided against debts and other obligations not set out within liabilities.

Guarantees provided in favour of third parties

This item is a bank guarantee totalling Euro 26.0 thousand provided by Ilko Coffee International Srl in favour of a company executive in connection with a residential property lease agreement.

Guarantees received from third parties

This item includes bank guarantees totalling Euro 223.2 thousand provided for the Group parent company as detailed below:

Guarantor	Guaranteed party	Amount
Banca Nazionale del Lavoro	Ministero dello Sviluppo Economico	640
Banca Nazionale del Lavoro	Ministero dello Sviluppo Economico	114,460
Banca Nazionale del Lavoro	Ministero dello Sviluppo Economico	105,000
Banca Intesa SpA	Autostrade Viacard	3,099
TOTAL		223,199

In addition, the item includes Euro 842.0 thousand relating to the guarantee in favour of illy Bar Concept SpA issued by the company on the occasion of the acquisition of the via delle Torri shop in Trieste.

Commitments towards leasing companies

At 31/12/2009 there were property lease commitments relating to the US subsidiary (Euro 583.6 thousand, the Dutch subsidiary (Euro 184.7 thousand) and the Canadian subsidiary (Euro 8.0 thousand).

COMMITMENTS RELATING TO OFF BALANCE SHEET TRANSACTIONS

Fair value of financial instruments

Interest Rate Swaps

In accordance with the provisions of art. 2427-bis, Civil Code, the table below details the fair value of interest rate swaps. Calculations, provided directly by the issuer bank, are based on the standard price calculation methods used by banks.

Derivative	Trade date	Maturity date	Notional CCY	Notional 31/12/2009	Mark to market
IRS	12/10/2005	14/10/2010	EUR	10,000,000	-182,779
IRS	02/03/2006	06/03/2011	EUR	10,000,000	-260,842
IRS	27/10/2006	29/07/2011	EUR	2,000,000	-87,990
IRS	25/01/2005	04/01/2010	EUR	1,500,000	-18,139
IRS	06/06/2006	08/06/2011	EUR	5,000,000	-147,933
IRS	06/06/2006	08/06/2011	EUR	5,000,000	- 181,740
IRS	02/04/2007	04/04/2011	EUR	5,000,000	- 218,824
IRS	22/12/2009	30/12/2016	EUR	20,000,000	- 690,797
				58,500,000	-1,789,044

In 2009, statement at fair value entailed the booking of a net charge of Euro 1,789.0 thousand, of which Euro 449.5 thousand written to the Group parent company's income statement.

Currency hedging operations

In 2009, the Company carried out a number of currency hedging operations (€/USD) in connection with the 2010 procurement of green coffee.

Type of contract	Trade date	Maturity date	Notional USD	Mark to market 31/12/2009
Forex Forward	29/10/2009	14/01/2010	5,000,000.00	-105,134
TOTAL				-105,134

The fair value of such operations at 31st December 2009 did not require booking of any differences in the income statement as they are hedging instruments.

COMMENTS ON THE MAIN INCOME STATEMENT ITEMS

VALUE OF PRODUCTION

REVENUES FROM SALES AND SERVICES

Revenues from sales of goods and supply of services break down as follows:

Revenues from sales of goods

	<u>Balance at</u> <u>31/12/2009</u>	<u>Balance at</u> <u>31/12/2008</u>	<u>Change</u>
- Finished products and coffee	247,799,981	236,383,683	11,416,298
- Raw materials	34,033	92,178	-58,145
- Packaging	1,245,497	3,321,218	-2,075,721
- Coffee machines, adv. material and other	<u>34,286,715</u>	<u>40,223,283</u>	<u>-5,936,568</u>
	283,366,226	280,020,362	3,345,864

The Euro 3,345.8 thousand increase in revenues from sales of goods (1.2%) reflects increased sales of coffee products and coffee machines, extension of the consolidation area following the inclusion of I.T.A.CA Srl and to the reclassification of financial discounts within “Interests and other financial expenses” made by the Group parent company for an amount of Euro 467.5 thousand.

The finished products and coffee item includes sales by the Spanish and German subsidiaries, totalling Euro 19,984.2 thousand.

The table below is a break-down of the Group parent company sales by branch.

<u>illycaffè SpA – Sales</u>	31/12/2009	31/12/2008	Increase	%
illycaffè SpA Sucursal en Espana	8,874,370.38	9,727,837.78	- 853,467.40	-8.77%
illycaffè SpA Niederlassung Deutschland	11,109,808.23	10,390,541.47	719,266.76	6.92%
illycaffè SpA Trieste	221,047,201.11	220,746,962.32	300,238.79	0.14%
	241,031,379.72	240,865,341.57	166,038.15	0.07%

INCREASES IN FIXED ASSETS FROM INTERNAL PRODUCTION

The following costs were capitalized under “Tangible fixed assets”:

	<u>Balance at</u> <u>31/12/2009</u>	<u>Balance at</u> <u>31/12/2008</u>	<u>Change</u>
Labour (included under personnel costs)	217,593	644,935	(427,342)

In addition to capitalization of personnel costs, the item includes capitalization of the cost of espresso coffee machines given to clients under loan and/or lease.

OTHER REVENUES AND INCOME

Other revenues and income were as follows:

	<u>Balance at</u> <u>31/12/2009</u>	<u>Balance at</u> <u>31/12/2008</u>	<u>Change</u>
Compensation for damages, green coffee	157,666	84,001	73,664
Compensation for damages, other	151,781	99,700	52,081
Gains on disposals of assets	53,131	70,868	-17,737
Reimbursement of transport expenses	875,594	703,931	171,664
Revenues for services and repairs	382,630	778,398	-395,769
Sundry grants	214,714	498,496	-283,782
Others	<u>4,091,764</u>	<u>1,619,473</u>	<u>2,472,291</u>
	5,927,280	3,854,867	2,072,413

“*Compensation for damages, green coffee*” refers to insurance repayments received for damages to consignments of green coffee purchased during the year and by weight differences allowed by our coffee suppliers.

“*Compensation for damages, other*” mostly refers to ordinary damages relating to physical distribution of our finished products.

“*Gains on disposals of assets*” refers mainly to routine disposal of ordinary equipment.

The “*Reimbursement of transport expenses*” item refers mainly to amounts recorded in the financial statements of the US subsidiary (Euro 621.3 thousand) and the Group parent company (Euro 227.2 thousand).

The “*Sundry grants*” item includes the two capital contributions received by the Group parent company (under law 26/86, Fondo Trieste, Euro 40.8 thousand; under law 488/92, Euro 175.6 thousand). The “*Grant under law 488/92*” includes the portion of a plant contribution linked to the depreciation of investments already made as of 31st December 2009 and relating to an investment plan being subsidised by the Ministry of Productive Activities.

The residual portion of such grants attributable to the income statement on a pro rata basis according to the residual useful life of the assets and the amount of the grant relating to investments still to be completed have been accrued and deferred to future periods (deferred income).

The item “*Others*” includes Euro 1,700.0 thousand relating to the *illylovers* buyers incentive on quantities provision of the Group parent company.

COST OF PRODUCTION

RAW MATERIALS, CONSUMABLES AND GOODS

These item includes the following:

	<u>Balance at</u> <u>31/12/2009</u>	<u>Balance at</u> <u>31/12/2008</u>	<u>Change</u>
Raw materials and others	59,375,462	74,385,803	-15,010,341
Charges on raw materials purchases	1,389,862	1,966,839	-576,977
Coffee equipment, packaging and advertising materials	35,336,641	28,256,506	7,080,136
Other purchases	<u>3,862,141</u>	<u>4,596,465</u>	<u>-734,324</u>
	99,964,106	109,205,611	-9,241,505

2009 saw an overall decrease in purchase costs compared to the previous year, due both to a reduction in purchased raw materials and to the extension of the consolidation area following the inclusion of I.T.A.CA Srl.

It is worth pointing out that “Raw materials and others” also includes 2009 costs on commodity derivatives (coffee, Euro 1,155.0 thousand) relating to the Group parent company.

SERVICES

The item is as follows:

	<u>Balance at</u> <u>31/12/2009</u>	<u>Balance at</u> <u>31/12/2008</u>	<u>Change</u>
Maintenance and repair costs	2,120,191	2,884,184	-763,993
Industrial expenses	6,617,103	8,003,003	-1,385,900
Consulting expenses	6,585,554	10,100,745	-3,515,190
Insurance expenses	908,057	854,782	53,275
Public utility expenses	1,891,854	1,755,092	136,762
Sundry administrative expenses	3,262,078	2,561,103	700,976
Marketing and communication expenses	24,448,813	24,514,050	-65,237
Travel expenses, employees/sales force	12,852,596	14,640,171	-1,787,575
Transferred personnel	393,621	0	393,621
Transport and handling expenses	9,500,729	9,262,100	238,629
Board of directors and statutory auditors	3,413,766	3,834,111	-420,345
Storage and outsourcing expenses	5,564,134	5,585,328	-21,194
Others	<u>35,644</u>	<u>33,879</u>	<u>1,766</u>
	77,594,141	84,028,546	-6,434,405

The fall in “*Consulting expenses*” was due mainly to the Group parent company (Euro 3,935.2 thousand) counterbalanced by the increase of Euro 262.9 thousand relating to the US subsidiary and Euro 198.0 thousand relating to Ilko Coffee International Srl.

“*Travel expenses, employees/sales force*” is made up of Euro 4,681.0 thousand for employees and Euro 8,171.6 thousand for the sales force. The fall is mostly imputable to the reduction in costs for the sale force relating to the Group parent company.

Directors' and statutory auditors' fees (Group parent company and consolidated Group companies) amount to Euro 3,744.3 thousand.

Directors' and auditors' fees are detailed in the table below, as required by art. 2427 no. 16) Civil Code.

Grade	Fees
Directors	3,307,775
Statutory auditors and accounting control	105,991
Total	3,413,766

LEASES AND RENTALS

The total amount of Euro 4,758.0 thousand is made up of rents for buildings (Euro 1,943.9 thousand), office equipment rentals (Euro 852.0 thousand), industrial equipment rental (Euro 547.1 thousand), long-term vehicle rentals (Euro 1,249.6 thousand) and various other equipment rentals (Euro 165.5 thousand).

PERSONNEL COSTS

This item covers all expenses incurred for employees including bonuses, promotions, unpaid leave and provisions under current law and collective labour contracts.

Also included are costs relating directly or indirectly to employees.

Amounts paid by the Group parent company on a voluntary basis to supplementary pension funds totalled Euro 280.3 thousand.

The table below shows changes in numbers of personnel by category over the year:

	31/12/2009	31/12/2008	Average
Executives	39	39	39
Office staff and middle managers	428	414	421
Operative grades	<u>331</u>	<u>330</u>	<u>331</u>
	797	783	790

The national labour contract applied by the Group parent company is that of the food industry.

AMORTIZATION, DEPRECIATION AND WRITEDOWNS

Details of the four items under this caption are shown in the income statement.

Amortization and depreciation are calculated on the basis of the useful life of assets and their exploitation in the production phase.

The "*Writedowns of receivables included within current assets and of cash and cash equivalents*" item includes Group parent company provision for bad debts of Euro 993.3 thousand, of which Euro 136.9 thousand relating to the Spanish branch and Euro 123.2 thousand to the German branch. The item also includes allocations to other Group companies' provision for bad debts totalling Euro 166.6 thousand.

OTHER PROVISIONS

This item includes provisions made by the Group parent company regarding agents' leaving indemnity (Euro 234.5 thousand), *illy lovers* buyer incentives on quantities (Euro 513.6 thousand), product risk guarantee (Euro 394.0 thousand), goods returns (Euro 181.8 thousand) and legal and tax risks (Euro 1,791.8 thousand). Moreover, the item includes the accrual made by Ilko Coffee International (Euro 250.0 thousand) relating to a claim in Japan and Euro 75.0 thousand relating to the accrual made by illycaffè France SAS for a litigation with a client.

OTHER OPERATING COSTS

Other operating costs are detailed as follows:

	<u>Balance at</u> <u>31/12/2009</u>	<u>Balance at</u> <u>31/12/2008</u>	<u>Change</u>
Studies and research	54,734	71,313	-16,579
Sundry industrial expenses	13,262	47,379	-34,117
Membership fees	232,074	220,749	11,325
PR expenses	1,243,207	2,354,566	-1,111,359
Sundry administrative expenses	243,888	133,640	110,248
Taxes (stamp, registration, advertising)	2,617,606	2,757,273	-139,668
Capital losses on fixed asset disposals	63,881	240,404	-176,522
Charges on sales	0	0	0
Charity	306,847	191,049	115,797
Royalties	511,853	0	511,853
Patents and other annual charges	175,971	112,613	63,359
Others	<u>1,567,764</u>	<u>1,629,381</u>	<u>-61,617</u>
	7,031,087	7,758,367	-727,280

The fall in the "*PR expenses*" item reflects lower Group parent company costs incurred compared to the previous year. In the previous year, "*Royalties*" was included within "*Others*" for an amount of Euro 777.6 thousand.

The item “*Charity*” includes the Euro 270 thousand contribution paid in the year to the *Ernesto Illy Foundation*.

FINANCIAL INCOME AND EXPENSES

INCOME FROM EQUITY INVESTMENTS

In 2009, the Group parent company recorded dividends totalling Euro 126.0 thousand, including Euro 89.9 thousand from Kafea Emporiki Techniki and Euro 36.1 thousand from illycaffè AG.

OTHER FINANCIAL INCOME

“Income other than above - others” (item C16d)

This includes the following:

	<u>Balance at</u> <u>31/12/2009</u>	<u>Balance at</u> <u>31/12/2008</u>	<u>Change</u>
Interest income on sundry receivables	150,534	105,285	45,249
Interest income from banks	35,758	139,043	-103,285
Interest rate swap gains	1,189,325	1,451,581	-262,255
Other interest income	<u>100,198</u>	<u>83,713</u>	<u>16,485</u>
	1,475,815	1,779,622	-303,807

The “*Interest rate swap gains*” item mostly includes the gains (Euro 1,029.6 thousand) arising from the Group parent company’s Interest Rate Swaps of financial instruments and interest income on interest swap (Euro 135.0 thousand).

INTEREST AND OTHER FINANCIAL EXPENSES

This includes the following:

	<u>Balance at</u> <u>31/12/2009</u>	<u>Balance at</u> <u>31/12/2008</u>	<u>Change</u>
Interest expenses on loans	2,283,067	3,886,226	-1,603,159
Interest expenses due to banks	472,822	639,239	-166,417
Interest expenses due to other financial institutions	409,757	381,889	27,868
Bank charges and commissions	620,284	602,819	17,465
Other financial expenses	<u>2,892,928</u>	<u>2,755,693</u>	<u>137,234</u>
	6,678,858	8,265,866	-1,587,008

The fall in interest expenses on loans (Euro 1,603.2 thousand) reflects a reduced use of medium- and long-term loans by the Group parent company in the year.

The “Other financial expenses” item includes Group parent company losses on interest rate swaps amounting to Euro 2,156.9 thousand, of which Euro 992.2 thousand arising from fair value statement at the end of the year.

In the year the Group parent company reclassified 2009 financial discounts granted to clients within “*Interest and other financial expenses*”.

Foreign currency exchange gains and losses

In compliance with art. 2426, 8bis, Civil Code and accounting standard CNDC-CNR 26, which requires the translation of assets and liabilities at the year-end rate, this item shows Euro 95.2 thousand in unrealized exchange gains. The Group parent company recorded net exchange losses for an amount of Euro 1,589.6 thousand.

ADJUSTMENTS TO FINANCIAL ASSETS

Revaluations and writedowns of equity investments

On consolidation, the equity accounting method used for associated companies and joint ventures caused an overall writedown of Euro 134.6 thousand (Euro 836.4 thousand in 2008), as follows:

- Euro 3.0 thousand relative to the winding up of the associate Biosensor Technologies Srl;
- Euro 19.1 thousand relative to DaChan Espressamente illy Ltd.;
- Euro 19.8 thousand relative to Cafè de Espressamente illy Ltd.;
- Euro 92.7 thousand relative to Espressamente illy Co. (Taiwan) Ltd..

EXTRAORDINARY INCOME AND EXPENSES

This item includes:

INCOME

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Extraordinary income	1,641,225	870,061	771,165

EXPENSES

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Extraordinary expenses	615,918	1,505,482	- 889,564

INCOME TAXES FOR THE YEAR

This item is made up of current taxes payable by individual companies and adjustments to the provision for deferred taxes and prepaid tax credit. The amount recorded (Euro 6,923.9 thousand) is payable by the Group parent company and includes Euro 4,967.3 thousand of Corporate income tax (IRES) and Euro 1,956.6 thousand of Regional income tax on productive activities (IRAP). Prepaid taxes, totalling Euro 1,186.2 thousand, mostly relate to the Group parent company (Euro 791.2 thousand) and Ilko Coffee International Srl (Euro 284.6 thousand).

These financial statements – comprising Balance sheet, Income statement, Notes to the financial statements and Directors' report – give a true and fair view of the financial position and results of the Company operations and correspond to the accounting records.

Chairman of the Board of Directors

Andrea Illy

ANNEXES

These annexes contain information supplementary to those supplied by the Notes to the financial statements, of which they are an integral part.

They are:

- statement of changes in consolidated shareholders' equity accounts over the year ending 31st December 2009
- cash flow statement for the year closing 31st December 2009.

ILLYCAFFE' S.P.A. AND SUBSIDIARIES

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY
FOR THE YEAR ENDING 31st DECEMBER 2009

(thousands of Euro)

Description	Share capital	Legal reserve	Revaluation reserve	Statutory reserve	Reserve for treasury shares	Local subsidies	Other reserves and retained earnings	Net profit for the year	Total
BALANCES AT 31.12.2008	6,300	2,827	6,309	0	286	798	65,069	8,064	89,652
Allocation of profits for 2008									0
- to other reserves							2,064	(2,064)	0
- to dividends								(6,000)	(6,000)
Grants to capital account									0
Capital increase for adjustment to euro									0
Reserve for grants taxable on a straight-line basis									0
Taxed grants reserve									0
Fiscal reserve									0
Statutory reserve									0
Revaluation reserve									0
Translation difference reserve							313		313
Other changes									0
Net profit for the year								<u>5,210</u>	5,210
BALANCES AT 31.12.2009	<u>6,300</u>	<u>2,827</u>	<u>6,309</u>	<u>0</u>	<u>286</u>	<u>798</u>	<u>67,446</u>	<u>5,210</u>	<u>89,175</u>

CONSOLIDATED CASH FLOW STATEMENT

€/1000
2009 2008

A. OPENING NET FINANCIAL POSITION

(203) 1,076

B. CASH FLOWS FROM OPERATING ACTIVITIES

Profit (Loss) for the year	5,210	8,064
Amortization and depreciation	22,058	20,193
(Gains) or losses on disposal of fixed assets	11	170
(Revaluations) or writedowns of fixed assets	135	836
Increases in fixed assets from internal production	0	0
Net change in employee severance indemnity	(127)	(479)
Net change in provisions for contingencies and other charges	(112)	769
Tax on shareholders' equity written to reserves	0	0

Profit (Loss) from operations before changes in current assets

27,174 29,552

(Increase) Decrease in trade receivables	(3,305)	(1,999)
(Increase) Decrease in other current receivables	(2,066)	(2,168)
(Increase) Decrease in inventories	2,088	(11,204)
(Increase) Decrease in financial assets not held as fixed assets	(66)	308
(Increase) Decrease in accrued income and prepaid expenses	1,439	(864)
Increase (Decrease) in trade payables	1,930	1,142
Increase (Decrease) in other payables	(1,192)	1,108
Increase (Decrease) in accrued liabilities and deferred income	(1,404)	(492)

TOTAL CASH FLOW GENERATED FROM (USED BY) OPERATING ACTIVITIES

24,597 15,383

C. CASH FLOWS FROM INVESTING ACTIVITIES

Investments in fixed assets:

Intangible	(3,558)	(6,093)
Tangible	(16,939)	(19,369)
Financial	(847)	(12,497)

Disposal price or redemption value of fixed assets:

Intangible	192	391
Tangible	190	2,636
Financial	1,044	373
Effect of consolidation	3,042	0

TOTAL CASH FLOW GENERATED FROM (USED BY) INVESTING ACTIVITIES

(16,876) (34,560)

D. CASH FLOWS FROM FINANCING ACTIVITIES

New loans	24,042	40,397
New bond issues	0	0
Shareholders' contributions	0	0
Capital increases	0	0
Grants to capital account	0	0
Loan repayments	(21,777)	(17,191)
Bond redemptions	0	0
Capital paying off	0	0
Other monetary changes in shareholders' equity	0	0
Dividends distribution	(6,000)	(5,000)
Allotment of result to minority interest	(17)	(273)

TOTAL CASH FLOW GENERATED FROM (USED BY) FINANCING ACTIVITIES

(3,751) 17,933

E. CASH FLOWS FROM REVALUATION ACTIVITIES

Revaluation of tangible assets	0	0
Change in shareholders' equity for revaluation	0	0
Increase (Decrease) in other payables	0	0

TOTAL CASH FLOW GENERATED FROM (USED BY) REVALUATION ACTIVITIES

0 0

F. CASH FLOW FOR THE YEAR (B+C+D)

3,970 (1,244)

G. CLOSING NET FINANCIAL POSITION (A+F+H)

4,080 (203)

H. NET CURRENCY CONVERSION DIFFERENCES

313 (36)

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