



CORPORATE
SOCIAL RESPONSIBILITY
REPORT 2005





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Photos by Jussi Hyttinen unless otherwise indicated.
Cover page photo by Lasse Keltto.

Corporate social responsibility report 2005

This is the third report on corporate social responsibility to have been produced by Gustav Paulig Ltd. The company is also referred to in the text as Paulig. Gustav Paulig Ltd is part of the Paulig Group.

The aim of the report is to present stakeholders with a comprehensive and accessible overview of Paulig's activities in the various fields of corporate social responsibility. It sets out to provide information on the company's performance in this area which is relevant, accurate, comparable and verifiable.

In compiling this report, we have made use of the international Global Reporting Initiative (GRI) guidelines. Its structure follows the GRI's three-pillar model and thus examines responsibility from the economic, environmental and social perspectives. We have used the GRI framework in so far as it can be applied, selecting those indicators which are the most relevant to Paulig. The information which already exists and can be obtained without unreasonable effort has been provided. Reporting will be extended on the basis of the GRI guidelines in line with developments in data collection as well as expertise and resources within our organisation.

Not all the information has been presented in the way required by GRI. For example, the use of many of the social responsibility indicators cannot be justified in the Finnish

context. The financial indicators for Gustav Paulig Ltd are reported as part of the financial statement for the Paulig Group. A comparison with the GRI core indicators is annexed (annex 1) to the report.

The information contained within this report has not been impartially verified. However, the degree of reliability can be considered to be high as the economic indicators are taken from statutory accounting records, Gustav Paulig Ltd's operations are covered by independent EFSIS auditing, and many aspects of environmental responsibility are subject to authority supervision and to the ISO 14001 auditions.

The report covers the activities of Gustav Paulig Ltd in Finland. It covers the financial year ended 30 April 2005. The two previous financial years may be used as a point of comparison. Some of the environmental responsibility indicators use the calendar year. Certain parts of the report reflect the latest available information at the time the report was compiled.

The contact persons for all matters relating to this report are Pekka Pirinen, Managing Director, and Leena Miettinen, Communications Manager. Both may be contacted at Gustav Paulig Ltd, POB 15, FI-00991, Helsinki, FINLAND; tel:+358 9 31981; email: firstname.lastname@paulig.fi.

Responsibility throughout the coffee chain

Corporate social responsibility is a key component of the corporate culture at Paulig. Development work in this area focuses on our own staff, on handling environmental issues, on product safety, on activities in coffee-producing countries and on the surrounding area of our roasting plant. In the last

financial year, we achieved the targets set for our efforts in corporate social responsibility.



Of significance in terms of our future and economic responsibility is the preliminary agreement for purchase of a plot of land for a new roasting plant in the new Helsinki harbour area. The final investment decision will be made when the plans for the use of the land

have been legally approved, in other words in 2006 at the earliest. Building work can begin during 2008, although this is dependent on the harbour development proceeding according to timetable.

Alongside plans for the new roasting plant site, we are constantly developing the activities of our existing plant. During the last financial year, we acquired the environmental permit required under new legislation. We were investing in new systems and structures and we were developing the roasting process.

In the area of social responsibility, we began an interesting project to look into the traceability of green coffee in coffee-producing countries. We wanted to find out how much our raw

materials suppliers know about the origin of the green coffee that they sell. Traceability is important in enabling possible problems with raw materials and means of production to be solved at an early stage, which benefits one and all.

In recent years, the much-discussed crisis in the coffee sector caused by over-production has subsided, at least as far as price is concerned. The volume of production has stabilised in relation to consumption and the price of green coffee has risen significantly. For the farmer, this rise signifies improved profitability and higher income. Nevertheless, sustainable development projects in coffee-producing countries are needed. Carrying out such projects is ongoing work for us and carries on regardless of changes in market prices. The purposes of sustainable development projects are to help farmers to increase the processing value of green coffee, to improve quality and to diversify their farming activities, so that they would not be too reliant on one raw material for their income.

I hope that this corporate social responsibility report, our third, will provide a comprehensive overview of the different areas of responsibility at Paulig. In the future, our objective is to extend reporting to cover both Finland and other market areas.

Helsinki, 30 September 2005

A handwritten signature in blue ink, appearing to read 'Pekka Pirinen', written over a light blue horizontal line.

Pekka Pirinen
Managing Director

Gustav Paulig in a nutshell

Gustav Paulig Ltd is part of the Paulig Group, and its premises are located in the Vuosaari district of Helsinki. Paulig was founded in 1876 and is a family-owned company. Gustav Paulig Ltd engages in coffee production as well as sales of coffee and hot chocolate products. Paulig has had coffee roasting operations since 1904. The vision of Gustav Paulig Ltd is to be one of the leading coffee roasters in the Nordic countries and on selected eastern European markets.

In the last financial year, Gustav Paulig had a total of 206 employees and its turnover was 159.9 million euros. Coffee accounted for 93% of turnover. Annual coffee production increased by 1.4% compared to the previous year, reaching a level of approximately 43 000 tonnes.

Gustav Paulig Ltd's best-known coffee brands are Juhla Mokka, Presidentti and Brazil. The Paulig Speciality Coffee product family launched in spring 2005 includes the company's espresso products, Parisien coffee and the country of origin range of coffees Ethiopia, Kenya, Guatemala and organic coffee Colombia. Other Paulig products are the ready-to-drink coffee Frezza and Tazza hot chocolate, which are both produced by our subcontractors. Paulig also supplies retail outlets with Melitta coffee filters.

The company has a 30% holding in Kjeldsberg Kaffebrenneri AS (www.kjeldsberg.no), a Norwegian roasting plant. Gustav Paulig Ltd acquires green coffee for the Kjeldsberg plant, and the two companies work in close cooperation concerning purchases of packaging materials and technical development.

Key stakeholders and customers

Gustav Paulig Ltd's key stakeholders comprise the company's own staff, consumers, customers, subsidiaries and associated companies, people living in the vicinity of our plant, green coffee suppliers and suppliers of other goods and services.



Adverts for Juhla Mokka coffee have for decades revolved around respect for craftsmanship. Finns have already been introduced to 46 different craftsmen over the years.

Gustav Paulig Ltd's values

Quality

Quality manifests itself not only in our products, but also in our operating processes and working practices.

Trust and respect for people

We give our employees responsibility and encourage them to use their abilities.

Multicultural approach

We operate in many different markets, and we respect their special characteristics. In the absence of local legislation, we ensure we comply with international agreements.

Innovativeness

The ability to evolve is the cornerstone of our success.

Openness

We encourage our employees to communicate openly, and also to be open-minded when encountering new things.

Other significant stakeholders are organisations, the media, the authorities, company shareholders and financial backers.

The company's customers are made up of central trade groups, retail chains, independent retailers and horeca sector like cafés, restaurants, hotels, canteens, service stations and public sector organisations. Our public sector customers cover educational establishments, child day-care centres, homes for the elderly, The Finnish Defence Forces, hospitals and Soldiers' Homes.

The guiding principles of responsibility

Responsibility is an essential component of Paulig's business activities. Paulig's values, strategies, management systems and practices provide the basis for this. In practice, corporate social responsibility means developing and observing practices and management systems which safeguard our economic competitiveness, are justified in terms of environmental balance and which are socially responsible.

We aim to extend responsibility more clearly throughout the value chain from the bean to the cup and to make it part of the daily work of every member of the Paulig team. Our efforts in the area of corporate social responsibility have focused on our own staff, on environmental issues, on product safety, on activities in coffee-producing countries and on the surrounding housing area of our roasting plant.

A six-member steering group oversees the implementation and development of corporate social responsibility. In addition, each of the company's main business processes has a corporate social responsibility person attached to it. Practical measures and assessment and reporting related to them are subject to ongoing development. Monitoring of corporate social responsibility is ensured through the annually updated GRI framework, the environmental management system and environmental measurements required by law, as well as through quality control. The results are documented in this report.

Moreover, Paulig maintains an active dialogue between stakeholders concerned about developing Corporate Social Responsibility and is attentive to the views of the various players so as to safeguard an increasingly sustainable coffee trade.

Quality thinking in products and operations

The main thrust of Gustav Paulig Ltd's quality policy is to supply its customers with high-quality products and services. In addition to traditional product quality, the quality policy covers operational quality, the principal aim of which is to ensure the balanced and systematic development of the company's business processes.

Paulig's activities are guided by international standards which include the following: our product safety strategy is based on the British Retail Consortium (BRC) standard, which is widely used in the food industry sector, and the EFSIS standard, while the ISO 14001 standard acts as a tool for environmental management. Progress in the area of business process

*"The day we start to compromise on quality,
we can close the factory gates for good"*

Gustav Paulig, 1905

Gustav Paulig's quality policy

- We offer high quality branded products and services to our customers.
- We are a preferred business partner.
- We provide our employees with interesting goals and challenges, which they are willing to commit themselves to.
- We are a profitable and long-term investment for our shareholders.

This means that

- we continually develop our products and operations.
- we combine our many years of experience with the latest expertise, while paying due attention to product safety and legal requirements.
- we ensure that our employees have the right skills and are motivated.
- we seek ethical solutions that are compatible with sustainable development and social responsibility.

development is evaluated by using a balanced scorecard procedure. Development targets and suitable indicators are defined not only for processes but also for departments and operations.

Membership of both Finnish and international organisations is a way of enabling Paulig to participate actively in the development of its own sector and of business life in general.

All the Finnish and international associations and organisations with which Paulig is involved have been listed in Annex 2.

World coffee trade in figures

Green coffee is one of the most important commodities in world trade, and together with oil is one of most traded raw materials in terms of value. The price of green coffee on the stock exchange is determined by supply and demand.

According to the International Coffee Organization (ICO), 6 720 million kilos of green coffee were produced worldwide in 2004, in other words around 112 million bags of 60 kilos. This represented an increase of 438 million, or around 7%, compared to the previous year. In 2004 the largest producers of coffee were: Brazil, Vietnam, Colombia, Indonesia, India, Mexico, Ethiopia, Guatemala, Peru and Honduras. Most of the countries that produce coffee are members of ICO. Of the countries that purchase the coffee, 30 are ICO members.

Coffee trade has a significant impact on the economy and social development of many producer countries. In some countries, over 50% of export revenue is generated by coffee. In the more developed producer countries, that proportion is considerably lower, standing at just a couple of percentage points in Brazil, for example. Coffee production costs vary considerably from one country to another. The majority of the coffee produced in the world is consumed outside the countries where it was produced.

Each year Paulig purchases around 0.7% of the world's coffee production. This amount is equal to the total annual production of over 15 000 medium-sized coffee farms. Most green coffee is purchased from coffee exporters in 10 – 15 countries. The most important country of origin for Paulig is Brazil. Other countries from which green coffee is purchased are Colombia, Nicaragua, Guatemala, Kenya and Ethiopia.

FACT FILE

- 6-7 million tonnes of green coffee are produced annually in the world
- The three largest producer countries are Brazil, Vietnam and Colombia
- Coffee provides an income for more than 100 million people in 60 countries
- There are approximately 20 million coffee farmers worldwide
- 75 percent of the green coffee produced is arabica coffee, 25 percent robusta

From the bean to the cup



1. Coffee is farmed in about 60 countries all around the world. The five largest producer countries are Brazil, Vietnam, Colombia, Indonesia and India.

2. Coffee thrives best in relatively hot and constant climatic conditions in medium-high mountain ranges in the warmest parts of the world. The coffee berry is slightly smaller than a cherry and green in colour, turning dark red as it ripens. The ripening process lasts around nine months.

3. Paulig buys green coffee directly from producer countries and purchasing is guided by ethical procurement principles. Paulig's buyers maintain contact with coffee producers, keep a close eye on crop forecasts and price developments for green coffee, and visit countries of origin and coffee farms. The photo shows Purchasing Director Jouko Pihkanen inspecting a batch of green coffee in Brazil together with local partner Archimedes.



4. The basic price level of green coffee is determined on the New York Coffee, Sugar and Cocoa Exchange (CSCE). The definitive price is agreed with the export company and is influenced by the quality and country of origin of a given batch as well as by the exchange price. Before a decision to buy a batch of coffee is made, samples sent in by its sellers are analysed in Paulig's coffee laboratory. Nearly all the coffee bought by Paulig is high-quality arabica coffee. The photo shows (from left to right) Katariina Aho, Marja Touri, Vuokko Puonti and Eija Peltokorpi tasting coffee.

5. Once approval has been granted, the green coffee batch is loaded onto the ship and the four-week trip to Finland can begin. Almost all green coffee today is transported in large in-leds instead of the 60-kilo jute bags that were previously used. A single in-led can hold around 21 000 kilos of green coffee. The photo shows Kaj Stenberg of SP Transit Finland Ltd Oy emptying a container.



6. Coffee is roasted within a week of its arrival at the roastery. Before the coffee reaches the consumer's cup, its quality is checked around ten times as part of purchasing, raw materials storage, roasting, grinding, packaging and finished product storage. Within a few days of roasting, the coffee is on the shelves in shops. Finns drink more coffee than any other nation in the world, around 4-5 cups a day.



Key results and targets for development in corporate social responsibility

Key results during the reporting period:

Economic responsibility

- Consolidating market position on domestic and export markets
- Preliminary agreement on site for new roasting plant
- Completion of development work for speciality coffee product family

Social responsibility

- Preliminary report on traceability of green coffee purchased by Paulig
- Continuation of International Coffee Partners projects in coffee-producing countries
- Refinement of personnel strategy
- Good result in competitiveness analysis
- Positive results from internal development projects (personnel management development, tutor training and working time models)
- Dental care as part of occupational health care provided by the employer

Environmental responsibility

- New environmental permit
- Study by VTT Technical Research Centre of Finland into the impact of coffee odour from the roasting plant on the local area as a pleasant environment in which to live
- Implementation of noise abatement programme
- Reducing odour and dust by developing the roasting process and decision to invest in coffee transfer pumps
- Decision to invest in more environmentally friendly reprocessing of coffee chaff
- Launch of Green Office programme

Targets for development:

Economic responsibility

- Maintaining market position domestically in a changing operating environment
- Consolidating growth in export countries
- Planning the new roasting plant investment in order to safeguard future operations

Social responsibility

- Further development of green coffee traceability
- Continuation of personnel management development project and tutor training programme
- Continuation of International Coffee Partners projects

Environmental responsibility

- Further work on Green Office: environmentally friendly office work and reduction of paper use
- Reusing coffee chaff for energy use



Economic responsibility

A good economic performance makes it possible to develop operations for the long term and to invest in development and the well-being of employees. The success achieved by Gustav Paulig Ltd is built on good customer relations, long-term brand-building, our skilled workforce, development of operating methods and processes, and our consumer awareness.

In the financial year ending April 2005, Paulig's coffee sales and market share increased slightly, while the overall size of the Finnish coffee market stayed the same. However, the market conditions were tough on account of both international competition and increased volumes of sales of retail chains' own brands.

The consumer price for coffee has risen by 19% since summer 2004. During the same period, the dollar price for green coffee on the world market has risen by around 90%. Raw material costs are the single most important factor influencing the cost of a packet of coffee.

Growth in net sales and increase in export

Gustav Paulig Ltd's net sales for the financial year ended April 2005 stood at 159.9 million euros and the company recorded a good profit level. Net sales grew by 7.6% compared to the previous year. A growth in coffee sales in Finland, Russia and the Baltic countries impacted positively on profits.

Purchases of raw materials and other supplies totalled 82 million euros. Employee wages and salaries, including associated social costs, accounted for 11.0 million euros. This figure includes fringe benefits, such as company cars and mobile phones. The company employed 206 people at the end of April 2005. Gustav Paulig Ltd paid around 7.7 million euros in turnover tax during the same financial year. Nordic Coffee Bar's business operations were sold to Wayne's Coffee in December 2004.

Successes:

- Consolidating market position on domestic and export markets
- Preliminary agreement on site for new roasting plant
- Completion of development work for speciality coffee product family
- New environmental permit will allow three-shift system if required

Targets for development:

- Maintaining market position domestically in a changing operating environment
- Consolidating growth in export countries
- Planning the new roasting plant investment in order to safeguard future operations

Production of roasted coffee rose slightly compared to the previous year and totalled almost 43 000 tonnes. Purchases of green coffee amounted to 46 580 tonnes. These figures include products and raw materials for both Paulig and its customers. The new environmental permit has made it possible since February 2005 to operate a three-shift system on work days.

All the financial indicators have been calculated on the basis of the company's statutory financial statement, which includes all of the company's areas of business. The indicators referring to Gustav Paulig Ltd's profit are reported as part of the profit for the Paulig Group.

Key figures for financial responsibility by financial year (EUR 1 000)

Financial year	1.5.2000-30.4.2001	1.5.2001-30.4.2002	1.5.2002-30.4.2003	1.5.2003-30.4.2004	1.5.2004-30.4.2005
Net sales	160 866	142 025	146 930	148 600	159 900
Wages and salaries paid, additional personnel costs and fringe benefits	10 174	10 015	10 627	11 067	11 000
Purchasing costs of green coffee and other material	84 848	72 561	75 894	74 168	82 000
Interest and other financial income	431	257	730	337	2 158
Interest and other financial expenses	3 226	1 982	395	678	273

Expanding coffee markets in Russia and the Baltic countries

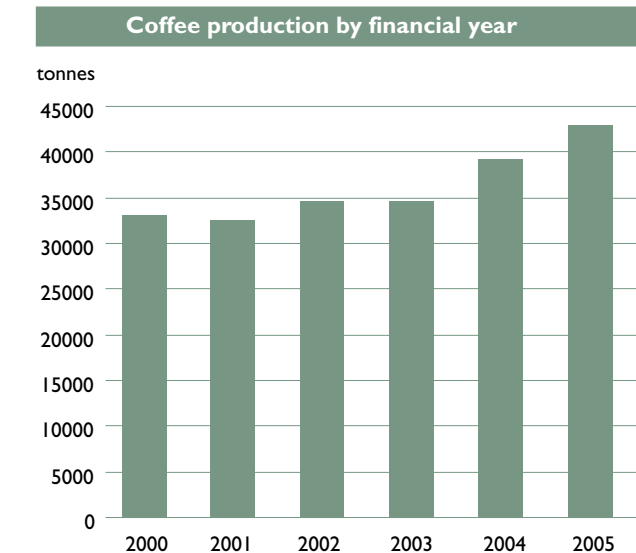
Over 10% of coffee roasted by Paulig is sold to the Baltic countries and to Russia. In the Baltic countries, responsibility for sales is held by sister company AS Paulig Baltic, while in Russia sales are handled by the subsidiary Paulig Export Ltd.

The majority of coffee consumed in Russia is instant coffee, but the market for roasted coffee is undergoing rapid change. In terms of sales value, Paulig has achieved second place in modern retail chains. The espresso market is growing particularly fast, with all McDonald's restaurants in Russia serving Paulig espresso coffee, for example.

Growth on the Baltic coffee market has slackened. In Estonia annual per capita coffee consumption stands at around 4.5 kilos, this is equivalent of the average level for many Central European countries. The outlook for exports is bright as economic growth in these countries remains strong, which leads to an increase in coffee consumption.

Preliminary agreement on Vuosaari roasting plant site

In 2004 Gustav Paulig Ltd and the City of Helsinki made a letter of intent for the purchase of a plot of land in the new business park by Vuosaari harbour. Paulig is planning to build a new



coffee roasting plant on the site. The timetable for investment will depend on progress made on the development of Vuosaari harbour. This land purchase will make it possible for Paulig to keep production in Finland and in the Vuosaari district of Helsinki.

Paulig has been roasting its coffee in Vuosaari since 1967. The site covered by the letter of intent is around eight hectares in area and is being sold for 4.8 million euros.



Paula has been Paulig's ambassador for good coffee since 1950. Emmi Salonen is Paulig's fifteenth Paula.

Photo: Lasse Keltto

Trusted coffee brands

Annual sales of roasted coffee in Finland total almost 51 000 tonnes. About 98% of this is traditional, light roast coffee. Retail sales account for 38 000 tonnes of coffee. Paulig's market share of retail sales stands at around 59% for traditional coffees and about 36% for speciality coffees (AC Nielsen, rolling 12-month ScanTrack survey, September 2005).

Paulig and Paulig brands are widely known in Finland and the products enjoy a strong market position. In export markets Paulig competes with major multinationals. It is of primary importance to boost product awareness and market share in these areas.

Finland's most trusted coffee brands are Juhla Mokka, Presidentti and Paulig (European Trusted Brands 2005/Reader's Digest). An IRO Branditor survey in February 2005 revealed that 80% of consumers recognise Juhla Mokka coffee spontaneously and the figure is 75% for Presidentti.

Paulig performs well in customer satisfaction surveys. Horeca purchasers gave Gustav Paulig a mark of 9.07 out of 10 (Taloustutkimus, Suurkeittiö 2004). According to a survey commissioned by TNS Gallup in early 2005, major caterers wish to continue working together with Gustav Paulig and also recommend the company to others. According to the survey, most overall satisfaction was expressed with the product and the input of the contact persons (Horeca customer satisfaction survey 2005, Suurkeittiöt).

Over 90% of grocery trade professionals consider Gustav Paulig brands to be strong (97%) and product turnover to be good (91%) (Taloustutkimus, grocery trade feedback 2004).

Speciality coffees extending range of coffees available

Paulig is developing the coffee market in Finland and in export countries and increasing consumer interest by bringing new products and concepts onto the market, for example.

The new Paulig Speciality Coffee product family, which is targeted at the international market, is the outcome of over two years' work. It brings together under the same umbrella brand all Paulig's speciality coffees and country of origin coffees. This series of 16 products was launched in May 2005 and will feature in all the company's market areas in the future. The Frezza product family was joined by the multipack of four.



In spring 2005 the Paulig Speciality Coffee product family was launched on the Finnish market, bringing all Paulig speciality coffees together under one umbrella brand.

Paulig's cooperation with Tuko has brought its rewards

Load processing and warehouse turnover have speeded up considerably



Last year Paulig was the second largest supplier of goods to the central warehouse of Tuko Logistics. The companies have worked in close cooperation to develop the supply chain to allow goods to flow as cost-effectively as possible.

Today two methods based on the global ECR* standard are in use: the electronic logbook and the CMI* procedure for use in managing stock levels.

The switch to the electronic logbook has clearly speeded up the handling of goods and enhanced data accuracy. The electronic logbook includes a record of the number of product pallets and each pallet's SSCC* code, production batch and the best before date of the products.

The CMI project between Paulig and Tuko has made it possible to cut storage time by as much as a half, which means that substantial savings can be made in terms of committed capital expenditure. Tuko sends Paulig a daily update of its warehouse stock situation and details of current orders. This information and jointly agreed stock levels allow Paulig to supply the products at the right time to meet the right need. When it comes to sales campaigns, the companies agree together on increasing volumes of stock.



Irina Mihailova, Lars Ahlroth and Ronny Reijonen from Paulig observe a coffee lorry being unloaded together with Kimmo Kahila from Tuko at Tuko's central warehouse in Kerava.

ECR= Efficient Consumer Response

CMI= Collaborative Managed Inventory

SSCC= Serial Shipping Container Code,

e.g. the "personal identity number" of an individual product pallet.

Environmental responsibility

The location of the Paulig roasting plant in the middle of a residential area of the Vuosaari district of Helsinki poses certain challenges for our operations. The company invests in making the local area a pleasant place to live by paying particular attention to the negative effects of noise and odour.

During the financial year 2004, residents from the vicinity of the roasting plant took part in an assessment of the odour impact of the production plant in the context of an odour panel study launched by Paulig and conducted by VTT Technical Research Centre of Finland. Paulig developed its coffee roasting process and decided to invest in renewing its coffee transfer system. Considerable efforts were also made in terms of noise abatement, thanks to which the noise generated by operations at the roasting plant is now clearly below the levels required by the environmental permit by day and by night.

New environmental permit and ISO 14001 environment certificate

Paulig's Vuosaari roasting plant was given an environmental permit under new legislation in December 2004.

In June 2004 Paulig received an ISO 14001 certificate for its environmental management system. The first provisional assessment required by the certificate took place in December 2004 and brought no non-conformities to light. The certificate was awarded by the certification services of Det Norske Veritas.

Successes:

- New environmental permit
- Odour panel research carried out
- Reduction in odour and dust: development of roasting process and decision to invest in closed pneumatic coffee conveying
- Implementation of noise abatement programme
- Decision to acquire equipment for recovery coffee chaff

Targets for development:

- Further work on Green Office: dealing better with the environmental dimension in office work and reducing paper use
- Reprocessing of coffee chaff briquettes for energy use
- Reducing the negative odour impact of roasting process

Emissions from Vuosaari roastery*

Emissions (tonnes) **	2001	2002	2003	2004	2005
Dust	1.0	1.1	1.1	1.2	1.3
Hydrocarbons	21	22	22	25	27
Carbon monoxides (CO)	103	109	109	123	134
Carbon dioxides (CO ₂)	5 323	5 650	5 640	6 386	6 949
Sulphur dioxides (SO ₂)	0.02	0.02	0.02	0.02	0.02

* Financial year

** Calculated value based on production volume, reference year 2002.

Waste (tonnes) *

	Mixed waste	Energy waste	Paper	Cardboard	Trade and industry pack. waste ¹⁾	Bio-degradable waste ²⁾	Metal	Electrical & electronic waste	Building waste	Hazardous waste
2002	497.3	41.0	9.3	60.8						
2003	346.8	149.0	35.0	36.2			34.1		50.4	1.36
2004	109.4	206.7	15.7	31.8	247.9	259.7	11.5	9.6	11.2	1.32
2005 **	0	94.0	7.8	15.1	140.6	87.1	5.9	2.7	8.5	0.41

* Financial year

** Data up to 30.6

1) Collection began in early 2004.

2) Tonnage monitoring began in May 2003.

Volume of emissions

In the financial year ended April 2005, Paulig produced around 43 000 tonnes of coffee at its Vuosaari roasting plant. The nature of the roasting process means that emission levels are low. Additives are not used during roasting and the factory does not store or handle chemicals. Emission volumes have been calculated in proportion to production. The 2002 figures have been used as reference values.

The volume of carbon dioxide emissions is around 0.3% of those from the local Vuosaari power plant, for example. Approximately half of the carbon dioxide emissions are generated by natural gas combustion, while the other half is originated from the roasted coffee. Steam is also released into the atmosphere during operations. Most of the dust generated is captured during the production process using dust cyclones and filters.

The volume of hydrocarbons, such as aldehydes, furanes and ketones, generated during roasting is also low. The odour produced at the end of this process is formed from these compounds. Sulphur dioxide emissions are low because the roasting plant uses exclusively low-sulphur Siberian natural gas as fuel.

Waste and waste-sorting

The total volume of waste produced during the last financial period was 757 tonnes. For certain types of waste, the volume generated in production has been brought down when compared to the volume of production. It has also been possible to increase volumes of waste available for reuse. No mixed waste has left the roasting plant since November 2004.

Mixed waste is being treated as trade and industry packaging waste, a considerable proportion of which can be recycled.

The volumes of waste paper and cardboard as well as construction and metal waste all fell. The amount of construction and metal waste went down considerably compared to the previous year as building demolition work on the site came to an end.

Remote-controlled waste containers and presses have enhanced the efficiency of waste logistics. A GSM link in the containers informs the waste company that the containers need to be emptied. The number of times full containers have been collected has fallen by 28 % since 2003.

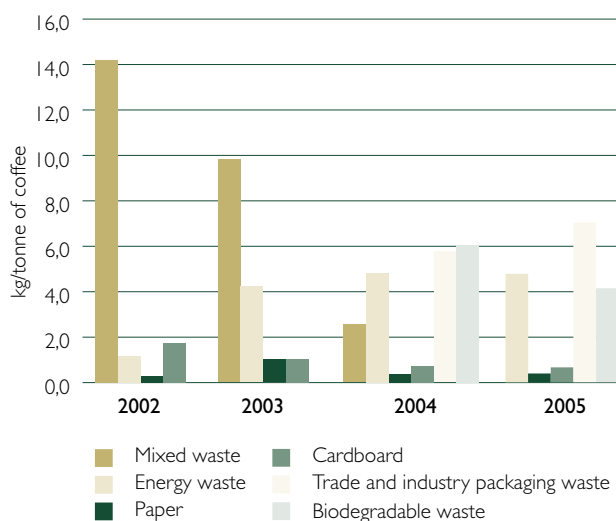
Individual offices have been equipped with waste carts complete with sorting instructions, and there are recycling points on our premises for cardboard as well as for old diskettes and overhead transparencies. The company SOL Palvelut Oy is responsible for cleaning our production and office premises, and is committed to observing the sorting instructions.

Water consumption and process water in production

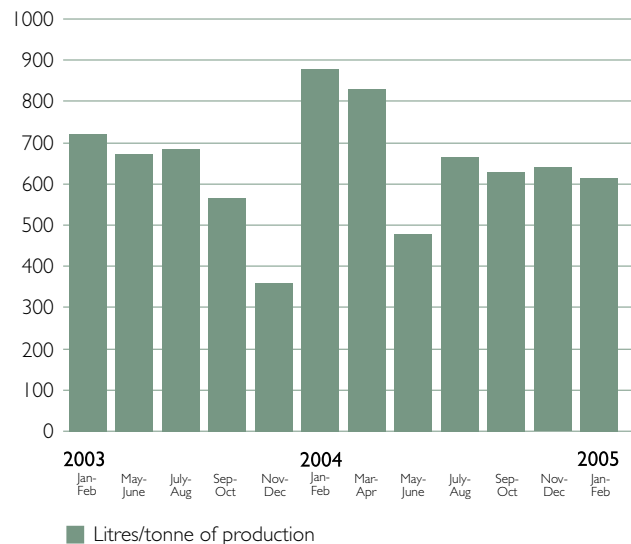
Water consumption at the Vuosaari roasting plant in the 2004 financial year stood at 26 264 m³, putting it at around the same level as in the previous period.

Process water is used only when easily flammable coffee chaff separates off from the coffee beans during roasting and is soaked in water. The resulting sludge is released with the permission of the City of Helsinki into the drainage system and channelled on to the waste water treatment plant.

Waste volumes in proportion to production



Water consumption 2003—

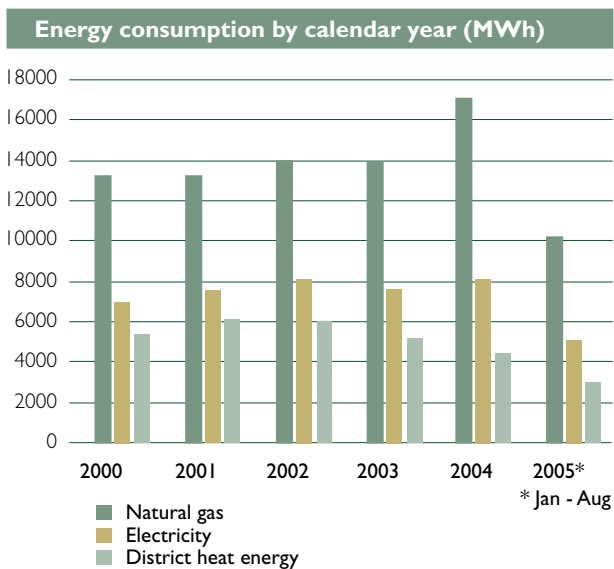


A decision was taken to switch over to a new coffee chaff system in autumn 2005. This would involve compressing the chaff into briquettes instead of soaking it. The scope for using these briquettes as fuel is currently being examined. The new system will also reduce the amount of dust in the surrounding area.

Energy consumption

Gustav Paulig Ltd's energy consumption grew compared to the previous year on account of increased production. In 2004* 8 377 MWh of electricity were used, 17 028 MWh of natural gas and 4 435 MWh of district heat energy. Total energy consumption stood at 29 840 MWh compared to 27 081 MWh for the previous year. On the other hand, energy efficiency rose as energy consumption per tonne of production fell to 694 kWh per tonne. (In 2003 energy consumption stood at 767 kWh per tonne).

* Calendar year used as reporting period



Packaging materials

Paulig has made a commitment in its environmental policy to look for product packaging solutions that take environmental considerations into account, are of high technical quality and that are at the same time as practical as possible for consumers.

The vast majority of Paulig's packaging material is provided by two suppliers, with whom bilateral quality agreements have been signed. Both suppliers have quality and environmental management systems which are certified as complying with the ISO 9000 and 14001 standards.

Coffee packaging is a guarantor of quality

Demands are placed on food packaging not only by the product itself but also by transportation, trade, consumers, legislation and the environment. The primary role of coffee packaging is to guarantee product safety and quality. These require the packaging to display features to guarantee that freshness and flavour remain intact.

Oxygen in the air is most detrimental to coffee quality. This can be prevented from entering the package by vacuum-packing, in which air-borne oxygen is removed at low pressure. This is the case for Juhla Mokka and Presidentti coffee packaging. A protective gas can also be used. This option is what is used for most of the speciality and country of origin coffee packaging.

Alongside oxygen, light is also detrimental to quality. It also displays exceptionally pliant qualities, which makes for efficient transportation and distribution of the packaged coffee. A layer of plastic on the outer surface of the packaging makes it less susceptible to piercing through mechanical wear and tear. Meanwhile, the layer of plastic facing the coffee makes it easier to open the packaging and offers a better seal.

Packaging that serves both product and environment



Paulig is one of Finland's major purchasers of flexible packaging materials. The majority of the laminate material used in Paulig's coffee packaging is supplied by Amcor. One of the Finnish production units of this global company is located

in Kauttua in south-west Finland, which is also where Paulig's packaging material is manufactured.

Amcor and Paulig are engaged in ongoing work to develop coffee packaging and its production. The companies use convergent environmental and product safety standards. For example, this means that in production at Amcor protective clothes are used and hygiene rules applied that are equivalent to those at Paulig. Product safety issues are examined according to the same principles and procedures in both companies. In this way, the product safety chain extends unbroken as far as the manufacture of the packaging.

Paulig and Amcor have a common goal to reduce the environmental load caused by coffee packaging throughout the life span of the product. At the packing stage at the roasting plant, maximum size laminate rolls are being used so that when a roll is changed the inevitable wastage is kept to the absolute minimum.

The standard half-kilo packet is logistically the most efficient model possible. It is important from an environmental perspective for the pallets and the plastic film wrapped around the coffee packets to be recyclable. The extent to which coffee packaging is recycled varies from place to place.

Amcor representatives frequently visit Paulig to monitor production and to develop together about where in the production process packaging could be further improved. Meanwhile, Paulig regularly audits Amcor's operations. Further information is available at www.amcor.com.



Photo: Lasse Keltto

Lighter laminate packaging has been developed to reduce as far as possible the raw materials needed and energy consumption.

New technology to reduce adverse effects of odour

An odour resembling burnt coffee is generated when the roasting chamber is quenched with a small amount of water at the end of the roasting process. The same phenomenon is experienced in the home when water is poured onto a hot frying pan. The smell of coffee is again given off by the chimneys.

Attempts have been made over the course of the year to reduce this burnt odour by developing the roasting process. The method developed at Paulig is the first of this kind anywhere in the world. The solution has been shown to work and preliminary results are good. The results are based on an assessment made by VTT Technical Research Centre of Finland.

The odour of coffee can be reduced using new, closed-circuit coffee transfer pumps, which do not allow the release of air during the process. This new coffee transfer system represents an investment of over 300 000 euros.



Noise

Noise at the roasting plant tends to be generated by the air inlets and outlets in the roasting machines, roasting fume outlets, air ventilation systems and traffic.

During the last review period, the noise level fell considerably as a result of noise filter installation projects. Taylor made noise filters were fitted to the 30 outflow pipes of ventilation ducts, the smallest of which were half a metre in length and the biggest of which the size of a small car. Furthermore, all external pipes were sealed and insulated, and one sound wall was installed at the plant.

The installation work was completed in October 2004. The project planning, the installation of the silencers and the measurement of the noise levels were carried out in conjunction with an external company of specialists and several equipment suppliers. Around 120 000 euros were invested in the noise abatement project.

The noise emitted by the roasting plant now remains below 50 decibels in all directions. The statutory limit value is 55 decibels by day and 50 by night. The average background noise level in urban areas of Vuosaari has been shown to be 45 decibels, while the noise level reached by a passing car, for example, is 70-80 decibels. In 2004 Paulig was contacted by local residents on two occasions on a noise-related matter.

A new connection road from Vuotie to Gustav Pauligin katu was opened by the City of Helsinki in spring 2004. The new link enables most of the freight traffic heading to the roasting plant to bypass the residential area. This rerouting of freight traffic reduces noise and is also important in terms of safety.

VTT investigates:

Does coffee odour make the surrounding area a less pleasant place to live?



From time to time, coffee odour produced during roasting hangs in the air around the roasting plant. As local residents take differing views of odours, Paulig wanted to find out if the odour from the roasting plant impacted on the attractiveness of

the local area as a living environment. The exploratory work was conducted by the independent expert VTT Technical Research Centre of Finland, which set up an odour panel made up of local residents.

The almost 100 volunteers who formed the panel recorded the odour situation every day on forms which were submitted to VTT. The incidence of odour was studied between August 2004 and January 2005, so that there was time to collate observations at different times of the year. The panellists recorded on the forms the duration, nature and strength of the incidence of odour, as well as their comments on how intrusive they found it.

The majority did not find the odour of coffee disturbing, with 9% of those that participated in the study describing the odour as intrusive. A few comments were made about burnt coffee smell. The closest neighbours rated the incidence of odour as intrusive for 1% of the total time span.

No guide values have been set for odour in Finland, which meant that the findings were compared to recommendations used in some European industrial plants. The odours from the roasting plant did not exceed the recommended values used in the reference countries. The findings showed that the overall adverse effect on the living environment remained at a non-harmful level across the research area. Intrusive odour was considered to occur for 1% of the total time span within a half-kilometre radius of the roasting plant, which equals the recommended value of the strictest country, Denmark. Further away from the roasting plant, the level was clearly below the recommended value. In 2004 Paulig was contacted by local residents on two occasions on an odour-related matter.



Results of odour panel research among residents

Odour incidence as percentage of observation period

- Total odour burden in the area 1%
- Incidence of intrusive odour < 0.5%
- Odour burden from plant operations 0.8%

Transporting the coffee

Green coffee is brought to Paulig from countries of origin as sea freight. Our logistics partners ensure deliveries from the countries of origin to Finland and from the Port of Helsinki to Vuosaari. Customers are themselves responsible for collecting finished products. Paulig does not have a transport fleet of its own.

In 2004 Paulig audited nine of its logistics partners. Environmental matters were one of the areas covered by the audit. It was found that our partners' knowledge of the environmental dimension has improved, but that there was still room for improvement in the area of reporting. The auditing also helps Paulig to inform its main partners of the environmental principles behind its operations.

When transporting green coffee, the aim is to use the procedures and instruments which are the most efficient and result in the least possible harm to the environment. In 2004 almost 93% of coffee was already arriving in in-led containers, which were filled to capacity. This reduces the needed container capacity.

In 2004 a total of 2 294 containers were delivered to Paulig, of which 2 136 were in-led containers. 2 041 containers were delivered to Paulig in the previous year. An increase in the volume of coffee production has meant that there has been a rise in transport both to and from the Vuosaari plant.

There are more outgoing deliveries of coffee than incoming. The reasons for this include the fact that roasted coffee requires greater capacity than green coffee, as well as the use of different types of packaging and variation in collection habits. Paulig works together with central wholesalers to identify the transport fleet to be used so that as high a volume can be collected each time as possible.

Environmental impact of roasting plant

Efforts are made to reduce the environmental impact of production as far as possible by using the Best Available Techniques (BAT) when it comes to new and replacement investments and by planning and steering our operations efficiently.

In early 2005 a Paulig employee was selected to represent the European roasting industry on the Best Available Techniques taskforce, which is drafting guidelines for the future of the European food industry. Its recommendations will be finalised in autumn 2005 and they aim to create guidelines regarding the best techniques available to the roasting industry which are in line with sustainable development and make economic sense. Environmental permits will also be assessed on the basis of the recommendations. The project is based on the Kyoto and Seville environment treaties.



Higher coffee production has increased the number of deliveries to and from Vuosaari. The picture shows Pentti Lepistö at work in the warehouse.

Small steps count when creating an environmentally friendly office



The Green Office project was launched in summer 2004. Its purpose is to introduce working methods which are easy on the environment into office work at Paulig. The project has been carried out in partnership with the World Wildlife Fund (WWF). Paulig reports back on the project to this organisation, which in turn participates actively in work on the project and shares its expertise with us.

Paulig defined four priority areas for the Green Office project: paper use, energy consumption, getting to work and office supply purchasing. Many small steps have been taken throughout the year, but development is a long-term undertaking and decisions to change working methods are to be taken one at a time.

Paper use has been reduced by, for example, reducing the number of reports which are to be regularly printed out, by decreasing the number of telephone directories which are acquired, and by switching in part to electronic invoicing and reporting. For instance, the number of purchasing invoices being sent online now stands at 20% of the total. Photocopiers have been set up so that it is easier to use them for double-sided copying.

Most meeting rooms have now been equipped with a computer and a data projector in order to reduce the number of overhead transparencies being used. A considerable proportion of work stations (120) have been fitted with high-quality screens, which saves electricity and makes it easier to read documents directly from the screen.



Paulig workers are encouraged to come to work by bike. When the cycling season kicked off in spring, a competition was organised to inspire employees to use this environmentally friendly form of transport as much as possible. Group Controller Sari Uitto-Virta is in the saddle.

Social responsibility

In the world of coffee, the chain of social responsibility extends from the bean to the cup. It covers the well-being and income of individuals, from the coffee farmer to the consumer enjoying his drink. In reporting on social responsibility, Paulig's operations are reviewed in countries of origin and in the procurement chain, from the point of view of both staff and the coffee consumer.

In Finland Paulig is a market leader in the sector, but it is a small player on the global stage. Because it is difficult to achieve far-reaching results alone, Paulig works in close cooperation with other coffee houses in order to extend the objectives of social responsibility as far back as the countries of origin.

Successes:

- Preliminary report on traceability of green coffee purchased by Paulig
- Good results in International Coffee Partners projects
- Updating the personnel strategy
- Implementing the personnel management development project and tutor training programme and achieving positive results from both
- Developing and introducing new working time models
- Dental care becoming part of occupational health care

Targets for development:

- Continuing green coffee traceability projects
- Continuing personnel management development project and tutor training programme
- Meeting the challenges of internationalisation

Green coffee procurement chain and operations in countries of origin

Coffee price the highest for five years

The world market price for green coffee is determined on the basis of supply and demand on the green coffee exchanges of New York and London. Recent years have seen a low price on account of overproduction, and the situation has been described as a coffee crisis. The volume of production has since levelled off compared to consumption and the coffee crisis is over, at least as far as price is concerned. The world market price for coffee hit its lowest level at the end of 2001, compared to which the price level in April 2005 was almost three times higher.



Quality coffee provides the farmer with the best income

The rise in the price of green coffee has raised the income level of farmers and helped them to develop their operations and produce quality coffee. Even though production costs vary enormously from one country to the next, the current price level makes it possible to produce coffee profitably in most of the countries.

However, the high market price for green coffee could lead to further overproduction. This is why it is important to continue sustainable development projects in the countries of origin. The aims of the projects are to diversify the crops farmed, to increase processing value and to improve the quality of green coffee, as quality coffee is what provides the farmer with the best income.

The past coffee year 2004-2005 proved to be a challenging one in terms of quality. Freak weather conditions, especially in the world's biggest producer country Brazil, made it difficult to acquire sufficient high-quality coffee. Paulig's comprehensive quality management, systematic feedback system and dialogue with its partners guaranteed the quality of the coffee even in these conditions. Developing cooperation with partners is an ongoing process.



Drying green coffee in Zambia.

Photo: Jukka Rouhiainen

Paulig buys green coffee directly from producing countries

Paulig buys most of its green coffee from export companies active in the countries of origin, in other words from export houses and sometimes also European coffee trading houses and importers. Cooperation with our partners has been intensified, with more long-term supply contracts being entered into with them.

Paulig requires that the activities of its partners comply with its procurement principles. All new suppliers are asked to account for the quality of their operations, and our list of approved suppliers is updated every year. Cooperation is suspended with a partner who is shown to have violated these principles.

Paulig's purchasing guidelines for green coffee include ethical purchasing instructions as well as quality criteria. Paulig signs a separate contract with each of its partners regarding compliance with the principles of ethical operations. The contract is based on guidelines from the International Labour Organisation (ILO) and the United Nations (UN) which take into account the conditions in the country and local legislation. These guidelines include requirements on working conditions, wage levels and the length of a working day. The basic prerequisites are ensuring that the means of production and business place the least possible strain on the environment, and that the working conditions are safe and responsibly maintained. Paulig does not accept the use of child labour or forced labour.

Paulig buyers make regular visits to coffee-producing countries and coffee farms to meet local partners and to update their knowledge of the conditions in which coffee is produced.

Further information: www.ilo.org/public/english/standards/ipecc/themes/domestic/index.htm



Traceability of green coffee a challenge to whole coffee chain



Enhancing the traceability of green coffee benefits the whole coffee chain in many ways. A seller who is able to tell the buyer the precise origin of the coffee he is buying is a sought-after business

partner. Knowledge of the production chain helps to solve problems linked to raw materials and production methods at an early stage, which is in everyone's interests. As awareness of the benefits of traceability increases in countries where coffee is farmed, the will and the pressure to improve traceability also grow.

In May 2004 Paulig's Purchasing Department launched a traceability project linked to green coffee. The project looked into how far and how accurately Paulig's key raw materials suppliers in the countries of origin know and document the origin of the coffee that they sell.

The research was based on a sample of 18 export houses chosen from 7 countries: Brazil, Colombia, Guatemala, Nicaragua, Kenya, Zambia and Ethiopia. The export houses chosen for the study supply 75% of Paulig's annual coffee purchases. Each export house was given the task of tracing back as far as possible the origin of a particular batch of green coffee that Paulig had purchased from them. The task was based on a purchase that had actually taken place, and for which information about the green coffee, such as the order number and the container number, was provided. Replies to the questionnaire were received from 17 of the export houses.

The findings of the study were finalised in spring 2005 and are a good reflection of the differences that exist between the coffee-farming countries. Some of the export houses were able to trace back the origin of the green coffee batch to the cooperative and to the coffee farm fairly quickly. In some cases, it took several days, even weeks, to find out.

All the green coffee bought by Paulig can be traced back as far as the export houses. Beyond that, the results vary from country to country. The questionnaire indicated that an average of 78% of coffee can be traced back to the level of the cooperative or processing plant. 13% of green coffee can be traced right back to the farm. Even though the findings are based on information supplied by the export houses themselves, they provide an overview of the situation that prevails.

In the future, we would like traceability to be explored in countries of origin by a third party. At the same time, development needs in the various countries could be looked into in order to improve traceability. In order to carry out such a demanding project, Paulig needs international partners.



Photo: Jukka Rouhiainen

Picking green coffee in Zambia, where the origin of coffee can be traced all the way back to the coffee farm.

Involvement in sustainable development projects

ICP cooperation

As essential channel for Paulig to promote sustainable development and the well-being of farmers is its active participation in International Coffee Partners GmbH (ICP). This non-profit making company was formed by five European coffee companies. It implements projects based on sustainable developments projects in coffee-producing countries. As one of its members, Paulig is partly responsible for the financing of the projects.

ICP plans and launches three-year public-private partnership projects. The projects set out to make a permanent improvement to the living conditions of coffee farmers and their families as well as to develop coffee cultivation and processing techniques. ICP launches a couple of new projects every year. In January 2004 ICP Managing Director Michael Opitz delivered a lecture on sustainable development projects at the FooDoo seminar organised by Paulig in Helsinki. Opitz believes that it has increasingly come to the fore just how great a need for education in the areas of business management skills and knowledge of the coffee market coffee farmers have, and just important these areas are for them.

During the reporting period, ICP had projects underway in a total of six countries: Honduras, the Dominican Republic, Guatemala, Cameroon, Uganda and Peru. The Honduras project came to an end in autumn 2004 and Guatemala ends in autumn 2005, following one additional year. Meanwhile, new projects were launched in Peru and Uganda in 2004. The target in Peru is quality coffee production based on the principles of sustainable development, while in Uganda the aim is the adoption of sustainable farming techniques and crop diversification.

Paulig donated a total of 98 382 euros to ICP cooperation during the reporting period.

4C Project

Paulig monitors and supports the 4C project (Common Code for the Coffee Community) of the European Coffee Federation, an umbrella organisation for the European coffee sector. The project sets out to create common ethical operating methods and guidelines for parties involved in the coffee trade who do not fall within any of the various labelling schemes. These operators represent the majority of the world's total coffee production, so even limited action would have a significant impact.

The 4C project aims to develop social, economic and environmental relations in coffee-producing countries. The requirements placed on project participants include acceptable, transparent business methods as well as consent to assessment by a third party. The project has been hampered by opposition that has come to light in the producer countries.

Further information: www.sustainable-coffee.net

International Coffee Partners

- Paulig promotes the well-being of coffee farmers and sustainable development through International Coffee Partners GmbH (ICP), founded in 2001
- ICP launches every year two or three new projects based on the principles of sustainable development in coffee-producing countries
- The projects are based on public-private partnerships and last for two to three years
- Further information: www.coffee-partners.org

Quality coffee benefits the farmer



The purpose of an ICP-project carried out in the San Juan area of Honduras was to generate coffee business based on sustainable development as well as to develop a community of 200 farmers and their families.

Local living conditions were poorly developed, not least because of the lack of an electricity network and the fact that a single doctor was responsible for health care. The coffee produced in the area has extremely high quality potential, which the farmers cannot exploit because of the lack of quality control and business management skills as well as the unfavourable sales chain.

The three-year project costing 618 500 euros was carried out jointly by ICP, BECAMO, a local member company of Neumann Kaffe Gruppe (NKG), and the German Agency for Technical Cooperation (GTZ). In order to promote processing activities, the government of Honduras made public funds available for the area's development.

The farmers were offered the services of consultants and training so that they would meet the preconditions for producing further processed, high-quality arabica coffee farmed according to Rainforest Alliance standards. Furthermore, projects aimed at improving housing, health and education were also implemented. The groups forming these communities made their own assessment of the situation, identified the priority action areas and actively participated in the projects through their own efforts.

Achievements during the project included establishing 12 farmer-owned companies, building 4 new green coffee processing plants, supplying farmers' homes with electricity and repairing public buildings such as health centres. The farmers received training and guidance on sustainable farming techniques. One area covered was the introduction of tools to facilitate the planning of farming, such as farm-specific cultivation maps.



Photo: ICP

Farmers were trained to assess coffee quality.



Photo: ICP

A new green coffee processing plant being set up.

Responsibility for employees

Personnel policy at Gustav Paulig Ltd is based on the values of the Paulig Group: quality, trust and respect for people, the multicultural approach, innovativeness and openness. The aim is to have a competent and motivated workforce.

Long periods of service and low staff turnover are typical for Paulig. The number of white-collar workers is growing in proportion to production staff, while the number of employees retiring is increasing as the baby boom generation reaches retirement age. At the same time, the proportion of young employees is rising, especially in sales and marketing. So-called age management skills and their development thus present the company with a challenge.

The period saw the conclusion of the personnel management development project, which produced positive results. We have also made a decision to continue the project independently. In production, the tutor training programme to promote multi-skilling took place, while new working time models were introduced with considerable success.

Refining a personnel strategy that applies to the whole of the workforce is an important part of our work. Recruitment, personnel development, incentives, rewards, well-being at work, participation, making an impact, internal communications and employment contracts are all areas set out in the personnel strategy.

The Paulig team

During the financial year ending April 2005, Gustav Paulig Ltd employed 206 people, of whom 92 were blue-collar workers and 114 white-collar workers. This compares to a total of 203 for the previous year. All the jobs are located in Helsinki with

Employee statistics 1.5.2004 – 30.4.2005

Number of employees: 206

- Women 50%, men 50%
- Blue-collar workers 92, white-collar workers 114

Blue-collar workers:

- Full-time 87
- Part-time 5
- Permanent 84
- Temporary 8

White-collar workers:

- Full-time 111
- Part-time 3
- Permanent 109
- Temporary 5

Absences:

- Absences due to sickness: 5.5 days per employee
- Absences due to occupational accidents: 0.5 days per employee

Average age of employees: 42 years. Average length of service: 14 years. 4 employees retired, 6 were in partial retirement.

Hours of training per employee:

- White-collar workers: 80 hours
- Blue-collar workers: 40 hours

the exception of sales representatives, who work from their place of residence.



A team representing Paulig takes part each year in the popular 10-kilometre run for women in Helsinki.

Photo: Paulig

Half the employees are women and half men. The average age among staff is 42 years while the average length of service is 14 years. Staff turnover stood at approximately 2% during the review period. Four employees retired from the company and six were in partial retirement.

Consulting and informing personnel about company matters

Employees receive information on the company and its activities from their supervisors, the intranet and a further weekly bulletin. News from the Paulig Group is circulated in the Paulig Reporter and Paulig Group Journal newsletters. There is a special section on the intranet and on the company's website providing information on corporate social responsibility. The results are published on an annual basis.

Twice a year a review session by the Managing Director is held and there is at least one joint meeting between employer representatives and staff representatives each year. A Management Forum for experts and supervisors is arranged on an annual basis to discuss development issues. Update sessions are held for the whole staff when required. Furthermore, everyone is welcome to take the initiative and to present suggestions for improvement.

At the level of the Paulig Group, the advisory committee, which meets at least three times a year, serves as a discussion forum between staff and management and provides staff with a channel for influencing company life. The white-collar and blue-collar workers both elect their representatives to the advisory committee every two years. The board of directors of Paulig Ltd appoints the employer representatives to the committee.

Over 90% of the blue-collar workers are members of the Finnish Food Workers' Union (SEL). The company has no information on the trade union membership of its white-collar workers as any membership fees are not deducted directly from their salaries.

Equality

New equality legislation requires all workplaces with a staff of more than 30 to have a written equality plan by 31 December 2005 at the latest. Paulig has had such a plan for ten years already. The plan has been drawn up to cover recruitment, career development, training and work-life balance. It should be noted that the concept of equality applies not just to gender equality but to all other forms of treatment, such as equality in terms of job titles and tasks. 35% of managerial posts at Paulig are held by women.

The new law requires the plan to cover pay-related equality as well. A performance-related pay scheme is applied to all staff. Alongside economic results and key performance indicators for each process, performance criteria are defined for teams and individuals as well.

Development and training

Competence development is based on the company's strategies and on the core competencies defined in them. Key areas at the moment are self-management, mapping knowledge of markets and competition, language skills and project training. Another area is increasing cultural awareness of the countries in which Paulig operates.

In the area of training, the reporting period was slightly busier than the previous period if the impact of the personnel management project is included. Efforts have been made in the area of competence development at all levels of the organisation. During the review period ended April 2005, white-collar workers received an average of 80 hours of training and blue-collar workers 40 hours. The figures do not include on-the-job learning.

In addition to in-house training courses, employees participated also in programmes organised by educational institutes in Finland and abroad. Training offered in-house included negotiating skills, retail operations training and project skills.



Photo: Paulig

The Management Forum concentrated to develop project work. The participants includes (from left to right) Purchasing Director Jouko Pihkanen, Personnel Manager Kristiina Saari-nen, Quality Manager Katariina Aho, Marketing Manager Katri Ojalehto, Marketing Controller Manu Salonen and Sales Coor-dinator Juuso Harjulehto.

Paulig is also involved in the company-specific Corporate MBA programme run by the Corporate Competence Academy. Some managers and experts also took part in the Partnership Programme training with participants from all Paulig Group companies. Crisis communications coaching was organised in autumn 2004 and was attended by 40 members of the Paulig team.

Training was also provided during the year in the environment guide and hazardous waste for electricians and staff in maintenance and building services. The Café Santos training programme, which covers knowledge of coffee, was continued. The aim is to adapt this training to make it part of the induction for new employees of the company.

Alongside education and training, development activities also include skills assessments, career planning, job rotation and project work. The basic principle is that every individual is responsible for his own development, but should the supervisor enable it to happen. Each member of the Paulig team has a development plan drawn up with his supervisor and signs a development contract.

Tutor training programme - from apprentice to master



A development programme for production staff, the so-called tutor training programme, was launched in October 2004 in conjunction with the AEL – Centre for Technical Training. The programme aims to ensure a high-level of expertise in roasting both now and in the future, and to make sure that Paulig's workers make the best coffee in the world.

The tutor training programme provides a way of systematically passing on professional expertise and assumed knowledge. The work of a roasting plant cannot be learned in any school or college, and the transfer of production skills in particular takes place on the job. The tutor training programme is the contemporary equivalent of the master and apprentice way of learning of years gone by.

13 individuals from the whole of the production supply chain as far as management and quality assurance took part in the first phase of the training. The training comprised four periods of contact time totalling six days and two periods of on-the-job learning and teaching. Each participant received a certificate recording his studies. In view of the positive results, a decision has been made to continue tutor training and to widen the pool of participants.



Packaging Machine Operator Carita Hietala's job description expanded through tutor training.

Occupational healthcare

The aim of occupational healthcare at Gustav Paulig Ltd is to ensure the overall well-being of our staff and to help them to cope with working life. The emphasis in occupational healthcare is placed on preventive action. Thorough medical examinations are organised for staff every so many years, and these include the employees' own assessment of how they would cope with their work assuming they stayed in the same job until retirement.

In the reporting period, absences through sickness fell again and were clearly lower than in other similar companies in the food sector. Absences through sickness stood at 5.5 working days per employee. The equivalent figure for the previous financial year was 6.8 days, with the sector average being 8.5.

In early 2005, occupational healthcare was extended to cover dental care services for staff. The reimbursement covers both preventive and corrective treatment within agreed limits.

As part of our preventive healthcare, employees have the opportunity to participate in personal early treatment programmes and exercise clubs, for example. A get-back-in-shape group of 20 individuals was set up on a trial basis during the review period. The group's purpose is to improve the physical condition, health and capacity to cope with working life of its members in an efficient manner.

New working time models bring overtime under control



The last financial year was a challenging one for the roasting plant because of a significant increase in production. A new production record was achieved during the period and this placed production under a great deal of pressure. Overtime

generated fatigue and presented us with the major challenge of how to improve the way we arrange working time. In early 2005 the roasting plant received a new environmental permit, which makes it possible for production to operate around the clock on working days. Employees were concerned about a possible switch to an ongoing three-shift system.

Three different working time models were tested over 6-8 weeks at a time in autumn 2004 and spring 2005. The trials were operated on a voluntary basis and employees were involved in planning shifts right from the outset. The parameters, in other words the production targets and possible additional compensation, were agreed with production management and employee representatives. The employees' different family situations were also taken into account.

The results and feedback from the trials were extremely positive: the arrangements made it possible to guarantee the necessary volume of production, the amount of overtime fell, staff had greater scope for influencing life at work, the atmosphere improved and employees coped better with working life. The three-shift system made possible by the environmental permit is so far being used only on a temporary basis, to cope with peaks in production, for example, and the system is still undergoing development.



Packing Machine Operator Marja Leena Launonen.



Photo: Paulig

Members of the Gourment Club trace the secret of good food back to the basic ingredients. The photo shows members picking mushrooms in a forest.

Promoting well-being

The reforms to aspects of everyday working life that were developed in the personnel management development project improved interaction between different sections of the staff. One of the achievements of the project was to produce consistent and practical guidance on sound ground rules for management.

The company helps its staff to find a balance between working life and family life. All employees can engage the services of a childminder at the company's expense to look after a sick child at home, and opportunities for teleworking are being further developed.

The company also promotes the physical and mental well-being of the workforce by supporting free-time and leisure activities. There are about twenty clubs devoted to different recreational pursuits, as well as holiday homes for use to staff. Children's parties for employees and their families together are organised every year, so too summer and winter events.

Safety at work

Paulig currently has a positive occupational health and safety record. Work in the area of occupational protection focuses on the mental aspects of occupational protection and on helping employees to cope at work. Attention is paid even to the slightest sign that an employee may be suffering from exhaustion, and action is taken immediately to deal with possible cases of bullying and harassment in the workplace.

Extensive automation has reduced the amount of repetitive work, and there is almost no incidence of either work-related stress disorders or occupational diseases. Occupational accidents led to 0.5 days of absence per employee in the last period. The figure stood at 0.4 days in the previous period.

Occupational protection and safety issues are coordinated by an occupational protection committee, which meets at least four times a year and draws up action plans and programmes for occupational protection. The departments have occupational protection officers elected by both the blue-collar and white-collar workers, and each department carries out annual occupational protection inspections.

New machinery and equipment are subjected to safety inspections as required by law. Commissioning inspections are always carried out before a new piece of machinery or equipment is introduced. Employees have been given induction and training in preventing emergency situations and have also received instructions on how to deal with such situations. A copy of the safety guide, which was updated in April, has been circulated to all staff.



Photo: Paulig

Picnic day is a time for Paulig employees and their families to get together. Around 400 members of Paulig team take part in the event each year.

Product safety and quality management

Quality from the bean to the cup

Ensuring the safety and high quality of its coffee is a key area of responsibility for Gustav Paulig Ltd. Product safety principles at Paulig is based on the international BRC (British Retail Consortium) standard, which is widely used in the food industry. The requirements that the BRC standard places on the company include a documented quality management system as well as administration of product, process and personnel management in the factory environment. Paulig holds a valid higher-level EFSIS/BRC certificate*. Paulig's operations are also certified for export to Russia according to GOST R standard.

Paulig reviews its self-assessment plan annually and updates it if required. The company has a group of trained auditors who are regularly used to carry out internal quality and environmental audits. The requirements of the EFSIS/BRC standard and the ISO 14001 standard have been combined to form a single functioning set. No critical or serious deviations from this set were identified in the company's processes when it was audited by an external audit company in spring 2005. Paulig also audited some of its logistics partners during the review period.

Product traceability and withdrawal procedures are put on the test each year. Research into the traceability of raw materials in the countries of origin was conducted during the review period. A study was also commissioned into internal traceability within the factory. The action for improvement suggested in the study has been started.

High quality requires good recipe management

All players in the production chain have a responsibility for ensuring the safety of our coffee products. During the review period, emphasis was placed both in training and at work on how important it is for the individual to take responsibility for quality. There has been increased staff cooperation in the interests of product safety, and the main focus of self-assessment has shifted from the coffee laboratory to production points.

* BRC = British Retail Consortium

**The EFSIS standard is an application of the technical BRC standard for companies supplying the retail food trade. Paulig has held an EFSIS/BRC certificate since 1999. EFSIS is a certification company authorised to carry out BRC standard conformity audits.



The safety and quality of coffee are assured using sensory and physical criteria, and also chemical and microbiological criteria as required. The photo shows Head of Cupping Team Marja Touri.

Each product has its own specifications – a product definition – which set out data relating to the manufacture of the product and all other data required by law. Ensuring a consistent level of product quality requires sound recipe management, since a raw material is a natural product that can vary from one year to the next.

Quality Review, a monthly summary report on quality and environmental matters, provides top management with information on the company's internal operations and measures that could help to guarantee product quality and safety.

Consumer service is part of the brand

Paulig's consumer service is an essential link between the company and the consumer. The consumer service receives over 6 000 enquiries each year regarding coffee.

Paulig works to promote good coffee in a variety of ways. Each year the company organises numerous coffee-related training sessions, seminars and events with catering professionals, media representatives and consumers.

The consumer service is also another important part of quality assurance. Comments received by the consumer service are traced back to the relevant processes and are passed on immediately to the coffee laboratory and/or production for further action. During the review period, 16 product complaints were made per million kilos of coffee, while 19 were made in the previous year. Consumer complaints receive a personal reply.

Quality assurance throughout the chain

- Before the coffee reaches the consumer's cup, its quality is tested an average of ten times.
- Its quality is assessed as part of purchasing, raw materials storage, roasting, grinding, packing and finished product storage.
- The safety and quality of coffee are assured using sensory and physical criteria, and also chemical and microbiological criteria as required.

Active research into health effects of coffee



Scientific research over recent years has provided interesting evidence of the positive health effects of coffee. As a plant product, coffee can be assumed to contain elements that offer protection against diseases. Moderate coffee consumption, such as 4-5 cups a day, has not been shown through research to have a detrimental effect on a healthy person.

Paulig actively supports and monitors research into coffee in the international PEC (Physiological Effects of Coffee) working group. Furthermore, Paulig is represented in the working group at the Finnish Coffee Roasters' Association set up to plan a "Coffee and Health" campaign. The "Coffee and Health" campaign provides information about the positive health effects of coffee to healthcare professionals, and it is financed by the International Coffee Organisation (ICO) and companies in the coffee industry.



Photo: Lasse Keitto

The "Coffee and Health" campaign informs healthcare professionals of the latest research findings on the health effects of coffee. The picture shows (from left to right) Karla Koullias and Leena Miettinen from Paulig and Hillevi Latvalahti from the Finnish Coffee Roasters' Association at the Medicine 2005 event in Helsinki.

FACT

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Further information: www.positivelycoffee.org

Responsibility for the local area

Towards the new roasting plant

Paulig plans to build a new roasting plant in the new business park by Vuosaari harbour. On 1 September 2004 the Helsinki City Council approved a preliminary agreement for the sale of a plot of land between Gustav Paulig Ltd and the City of Helsinki. A final decision on investment can only be made when the plans for the use of the land have been legally approved and if the harbour development work proceeds according to timetable, in other words in 2006 at the earliest.

The building work can begin once the first stage of the harbour development has been completed in early 2008. The aim is to roast the first kilos of coffee in the new roasting plant in 2009. Excavation work at Miljoonamäki, on the site of the new roasting plant, began in autumn 2004 as part of the City's harbour redevelopment project.

Paulig as part of the neighbourhood

The Paulig plant in Vuosaari is the largest employer in the area, and a substantial proportion of the company's employees also live in eastern districts of Helsinki. Paulig has been involved in developing Vuosaari in many ways and has also invested in the area. The company has for many years worked in cooperation with residents and their associations in areas such as spatial planning and development.

In early 2005 Paulig organised a planning meeting at the roasting plant to which local decision-makers and representatives of residents' associations and the local parish were invited. The project manager for the new Paulig plant presented Paulig's plans at a spatial planning session of the City of Helsinki and Vuosaari residents' committee. In addition, Paulig held a meeting with representatives of local housing associations for the purposes of information and discussion in June 2004.

Paulig provides its closest neighbours with information about its operations and their environmental impact by letter and in the local press. Contacts from local residents are a significant way of monitoring environmental impact. More detailed information about the Odour Panel survey, conducted in conjunction with VTT Technical Research Centre of Finland, is provided in the section on environmental responsibility.

Paulig has been sponsoring the local Kallahti School in Vuosaari for a number of years. A number of classes visit the company each year to find out about working life and the activities of the roasting plant, and company employees give classes at the school. A special programme has been planned for each year-group at the school. Teachers from the Kallahti School also came and found out about the roasting plant during the reporting period.



Photo: Lasse Keltto

Paulig's roasting plant is surrounded by residential areas. The new plot is located nearby the harbour area in the background.

Dialogue with stakeholders

The most important channels that Paulig has for dialogue with consumers are our consumer service, the internet and market research.

Our consumer service receives approximately 6 000 enquiries each year. Our experts reply to questions personally on weekdays by telephone, post or email. The consumer service also assists organisations and the media, organises briefings and publishes web pages, books, brochures and guides. Paulig's Paula has served as an important point of contact with consumers and other stakeholders since 1950. In addition to providing information about products, she is also the mouthpiece of coffee culture.

A great deal of information is also available on Paulig's product packaging, such as storage instructions, details of how to dispose of the packaging and the contact details of Paulig's consumer service. The company's website at www.paulig.fi is there to serve consumers and professionals in the field alike.

The Paulig Institute is a training centre designed for professionals in the catering sector. Its training sessions are attended by approximately 3 000 people every year. Paulig also arranges a FooDoo seminar for professionals in the food industry every second year.

Paulig has built up long-standing customer relations and maintains regular, personal contact with its customers. The company participates as far as possible in fairs, briefings and other events organised by its customers. Customer satisfaction is the subject of ongoing monitoring.

Regular contact is maintained with the media and the authorities. For example, Paulig arranges the annual World of Green Coffee press seminar, which deals with topical issues in the coffee sector. Meetings with the authorities often take place in connection with statutory supervision or when new legislation is being drafted. When it comes to new legislation, contact is usually maintained via the Finnish Coffee Roasters' Association.



Support for charitable causes

Gustav Paulig Ltd provides financial support to projects which are in line with company values and related to its line of business.



During the review period, Paulig has been supporting the work of the worldwide organisation Operation Smile. Operation Smile is active in 29 different countries and its

aim is to use public-private partnerships to build sustainable healthcare systems for children and their families. The voluntary surgeons, anaesthetists, nurses and trainers that are part of the organisation carry out corrective surgery free of charge and look after children suffering from facial injury or disfigurement, such as harelips and cleft palates. Operation Smile has cared for tens of thousands of children around the world since it began in 1982.

Paulig donated 25 000 euros to Operation Smile in Nicaragua. The donation was channelled to the La Mascota children's hospital, where it is being used to acquire equipment to improve safety for surgical patients. The suggestion for cooperation came from Paulig's Nicaraguan raw materials supplier CISA, which supports Operation Smile itself.

Further information: www.operationssmile.org

Paulig produces the Santa Claus coffee for the official Santa Claus product family. The company has chosen this way to support the work of the Santa Claus Foundation. Each year the foundation devotes a considerable sum of money – a gift from Santa – to children facing hardship around the world. The Foundation donated 10 000 euros to the association Children of the Station in 2004. Santa's gift is paid out of royalty income received from the companies in the foundation, and the size of the gift is decided each year by the board of the Foundation. The proportion of royalty income that it received was around 10% in 2004. Paulig donated 5 000.80 euros of royalty income in 2004. **Further information:** www.santaclausplaza.com



Since 2001 Paulig has supported the Domcafé mission café, which is run by the congregation of Turku cathedral in south-west Finland. The proceeds from the café, which is

open mainly in the summer, are channelled to the nursing school and hall of residence of the hospital in the Ethiopian city of Aira. Paulig provides the café with as much Ethiopia country of origin coffee as it needs. Domcafé donated 7 616.94 euros to Ethiopia in 2004. Turku's Domcafé celebrated its 10th anniversary in May 2005. Guests were served by Paulig's very own Paula Emmi Salonen, who is herself from Turku (see photo above).

Further information: www.turunsrk.fi

Paulig donated around 650 kilos of coffee and 40 000 takeaway cups to the Walkers youth café chain in 2004. In addition, Walkers café workers take part in coffee training provided by Paulig. The cafés, of which there are 24 around Finland, do valuable youth work and are staffed by volunteers.

Further information: www.asemanlapset.fi

Paulig also supports the work of the Ronald McDonald House Charities by participating in the annual golf competition, the entry fees and fairway fees from which are donated in full to support the work of the Ronald McDonald House. Paulig also participates in the organisation of the event with its products. The Ronald McDonald House provides homely accommodation for the families of seriously ill children when the children come to Helsinki for hospital care.

Further information: at www.rml.fi

Paulig has supported the Finnish War Veterans Federation for a number of years and has provided coffee for the Christmas events for the homeless organised by Veikko Hursti, the late social welfare counsellor.