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CORPORATE SOCIAL RESPONSIBILITY REPORT 2003

This is the first report on corporate social responsibility published by Gustav Paulig Ltd. The company is also referred to as Paulig in the report. Gustav Paulig Ltd is part of the Paulig Group.

At Paulig corporate social responsibility means developing and implementing procedures and management systems that secure the company's economic competitiveness and are environmentally justifiable and socially responsible.

This report is a means for us to give our stakeholders a comprehensive and understandable picture of our efforts in the various aspects of corporate social responsibility. It is intended to show what we have done, measure our performance and outline our future actions.

In preparing this report we have utilised the international Global Reporting Initiative (GRI) guidelines. The report is structured according to the three dimensions of the GRI framework, in which responsibility is addressed in economic, environmental and social terms.

We have selected those indicators that are the most relevant to Paulig. Only information that already exists or can be obtained with reasonable effort has been included in the report.

In our reporting we have sought to comply with the GRI principles of transparency, completeness and accuracy. The report ends with a comparison between the indicators chosen and the core indicators of the GRI guidelines.

Not all of the relevant information could be presented in this report, because some of the projects related to indicators and reporting are still in their early stages. We aim to provide information on all the selected indicators as from the first reporting year.

The accuracy of the information included in this report has not been impartially verified. However, the key financial figures are taken from verified accounting records, production activities are covered by independent EFSIS auditing, and many areas related to environmental responsibility are supervised by the authorities. Therefore the level of reliability of the information presented can be considered to be good.

The report on corporate social responsibility focuses on Gustav Paulig Ltd's coffee production in Finland, which accounts for 97% of the company's net sales. The reporting scope will be widened as more information becomes available, the organisation gains more competence and the required resources are further developed. In some cases it is impossible to consider the coffee activity separately from the company's overall business. The non-production reporting includes the Frezza ready-to-drink coffee business, the Tazza hot chocolate business, and the seasonings business, which was transferred to Santa Maria Finland Ltd on 1 May 2003 immediately after the end of the reporting period.

The report covers the financial year which ended on 30 April 2003 and the two previous financial periods. The reporting period is always the same as the company's financial year unless otherwise stated. The calendar year has been used as the reporting period for certain environmental indicators. The report also presents some changes that were implemented before 2001 but which have had a significant effect in the reporting period. Some of the figures represent the most recent information available at the time the report was prepared.

The report begins with basic information about the company and the operating practices, management systems and strategies that guide it with regard to corporate social responsibility. The focus of the report deals with the company's economic, environmental and social responsibility. The relevant indicators are shown in each part of the report.

The report ends with a summary of the most significant results achieved by Paulig in this context, as well as important areas for improvement.

The people to contact at Paulig in matters relating to this report are Pekka Pirinen, Managing Director, and Leena Miettinen, Communications Manager. Both can be reached at: Gustav Paulig Ltd, P.O. Box 15, FIN-00981 Helsinki, tel. +358 (0)9 31981, Email: firstname.lastname@paulig.fi.

WE KNOW OUR RESPONSIBILITY FROM BEAN TO CUP

Corporate social responsibility is vital for the competitiveness of the coffee industry. Our stakeholders are becoming more interested in issues such as living conditions in coffee producing countries and the health and environmental effects of the coffee they enjoy every day.

Even though many aspects of corporate social responsibility seem self-evident for companies in Finland, there is still a great deal of work to be done. As the leading Finnish company in the coffee business we want to maintain our position as an enterprise that is trusted and highly regarded, and we want to be a preferred business partner, employer and neighbour. In this regard corporate social responsibility will play an increasingly important role in the coming years.

Our aim is to integrate responsibility into all aspects of our daily work and decision making from the bean to the cup. We want to be responsible in a way that is appropriate for us, taking a long-term view, anticipating what lies ahead, and acting voluntarily.

In autumn 2001 we began to gather data and analyse information relating to our corporate social responsibility. In 2002 we continued this work by performing an internal audit and compiling a pilot report. On this basis we defined focus areas for future development.

Our company's values, policies and practices create the foundation for corporate social responsibility. Our senior management is committed to the policies and principles presented in this report. We have begun with training for our employees and monitoring of implementation. Our efforts are overseen by a steering group, and people have been appointed to lead the work in the business processes.

The process has got off to a good start, but we still have a lot to learn. Reporting has started on our focus areas, but we will gradually expand the scope utilising the GRI guidelines.

The three dimensions of corporate social responsibility – economic, environmental, and social – are complementary and cannot be ranked in order of importance. Based on the surveys we performed, we chose to focus on environmental responsibility and, within the social dimension, on responsibility for company personnel, countries of origin, and the company's immediate surroundings.

The well-being of employees and their ability to cope are important factors for any company that wants to

be successful and attract competent people in an increasingly competitive environment for recruitment. We believe that employer responsibility will become a key factor for people in selecting jobs.

The coffee producing countries are important as our everyday partners, but they also represent a challenging focus area with regard to our corporate social responsibility. On the global scale Paulig is a small player and therefore our ability to help improve working and living conditions in the coffee producing countries is limited. This prompted us to work with four other partners in our industry to set up International Coffee Partners GmbH, a company responsible for planning, financing and implementing actual development projects in coffee producing countries.

Responsibility for our immediate surroundings is important to us, because our production plant is located in Vuosaari, a district of Helsinki with a growing population. Even though the environmental impact of a coffee roasting plant is small compared to many other industries, our neighbours can still see, hear, and smell our production every day. For this reason our primary environmental target is to reduce the direct environmental impact of our activities on our immediate surroundings.

As a manufacturer of branded products in the food and beverages sector, product safety is also an important area of responsibility for our company, and we are constantly working to ensure it is maintained.

Although most of the principles of responsibility are already 'in-built' in our family-owned company, we are determined to put even greater focus on our corporate social responsibility in the coming years.

Helsinki, 2 October 2003
Pekka Pirinen, Managing Director



GUSTAV PAULIG LTD IN A NUTSHELL

Gustav Paulig Ltd is a subsidiary of Paulig Ltd, and it is located in the Vuosaari district of Helsinki. Paulig was founded in 1876 and is still a family-owned company. Gustav Paulig Ltd is engaged in coffee production, and sales and marketing of coffee and chocolate beverage products. Paulig has been involved in coffee roasting since 1904.

In the last financial year Gustav Paulig Ltd had 225 employees and its net sales was almost EUR 147 million. Annual roast and ground coffee production amounted to almost 35,000 tonnes, accounting for around 87% of the company's net sales.

The company has a 30% holding in Kjeldsberg A/S (www.kjeldsberg.no), a Norwegian coffee roasting company. Gustav Paulig Ltd sources green coffee for the Kjeldsberg roastery and the two companies cooperate in their purchases of packaging material and technical development.

Gustav Paulig Ltd's best-known coffee brands are Juhla Mokka, Presidentti and Brazil. Paulig's speciality coffees include Espresso, Parisien, a French-type product, and the Ethiopia, Kenya, Guatemala, and Colombia brands, which are produced from beans grown in the respective countries. Colombia is organic coffee.

Paulig's other well-known brands are Frezza, a ready-to-drink coffee, and Tazza, hot chocolate. Both of these are produced by subcontractors. Paulig also imports and markets Melitta coffee filter bags.

Key stakeholders and customers

Gustav Paulig Ltd's main stakeholders include the company's own employees, consumers, customers, subsidiaries, associated companies, people living near the company's plant, green coffee suppliers, and suppliers of other goods and services.

Other important stakeholders include organisations, the media, the authorities, company shareholders and financiers.

Paulig's customers include central wholesalers, retail chains, independent retailers and horeca business, which include cafés, restaurants, hotels, workplace canteens, service stations and public sector organisations. Public sector customers include educational establishments, daycare, homes for senior citizens, hospitals, and the defence forces.

The dialogue between Paulig and its stakeholders is addressed in the social responsibility part of this report.

Traditional brands mean responsibility. "When you start compromising on quality you might as well shut the factory gates." Gustav Paulig, 1905.



GUIDING PRINCIPLES AND MANAGEMENT SYSTEMS

The values, strategies, management systems and operating practices of Gustav Paulig Ltd were re-evaluated in spring 2002. The long-term objective is to integrate corporate social responsibility into everything Paulig does - throughout the value chain 'from bean to cup' - as part of every Paulig employee's daily work.

We have started to integrate corporate social responsibility into Paulig's operating practices and management systems. Standard procedures for internal operations and sourcing will be developed as the process advances.

The corporate social responsibility steering group will oversee implementation. In addition, people have been appointed in charge of corporate social responsibility in the company's main processes. The results will be documented in the corporate social responsibility report.

Responsibility based on values and practices

The vision of Gustav Paulig Ltd is to be one of the leading coffee roasting companies in the Nordic countries and in selected East European markets. The company's mission is: "Paulig coffee – for enjoyable moments".

Company management is supported by systems based on international standards. Through its membership of Finnish and international organisations, Paulig plays an active role in developing its own sector and business life in general. Paulig is a member of Finnish Business & Society, for example, an organisation promoting corporate responsibility.

Quality management

"When you start compromising on quality you might as well shut the factory gates." (Gustav Paulig, 1905)

The principal idea in Gustav Paulig Ltd's quality policy is to supply high quality branded products and services to customers. In addition to product quality, the quality policy also covers operational quality, the main target of which is to develop the company's business processes in a balanced and systematic way. The performance of the processes is measured regularly.

The company's management and employees are committed to developing the business processes. Progress is measured by means of balanced scorecards. Development targets and suitable indicators have been defined not only for the processes but also for departments and tasks.

Our 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 with new things.

On the basis of our values we have established a number of principles which promote corporate responsibility. We expect all our employees to commit themselves to these principles:

I participate and share knowledge – I am open and listen to others.

I use my initiative and take responsibility – I encourage others and give them space.

I recognise problems and seek solutions – I learn from mistakes and failures.

I am committed to lifelong learning – I am always willing to learn new things.

Quality system

Gustav Paulig Ltd's coffee production quality system is based on the international EFSIS standard, which focuses on product safety and quality. The company was first awarded an EFSIS certificate in 1999. The current higher level certificate is valid until the end of February 2004.

By operating in accordance with the standard and practising in-house control, we can ensure that all our production and delivery processes follow procedures that guarantee the quality, safety and legality of the final products. The EFSIS standard meets the requirements of the British Retail Consortium (BRC) technical standard as it applies to companies that supply foodstuffs for the retail trade. Further information is available at www.efsiss.com

Coffee production permits and commitments

- European Contract for Coffee (ECC): All Paulig's green coffee purchase agreements conform to ECC regulations. Further information: www.ecf-coffee.org
- Environmental permit: The City of Helsinki Environmental Committee granted an environmental permit to the roasting plant in May 1996.

Our 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 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.

- Environmental review: The roasting plant was inspected in accordance with the ISO 14001 standard in 2000.
- Safety plan: The purpose of the safety plan, created in 2000 and updated in 2002, is to familiarise the employees in the production plant with fire control and accident prevention.
- Self assessment plan: The City of Helsinki Environment Centre issued a decision on in-house control at Gustav Paulig Ltd in November 1996. The company's in-house control is based on HAC-CP (Hazard Analysis of Critical Control Points). Further information: www.elintarvikevirasto.fi
- Control of organic products: The entire organic product supply chain is covered by the official control system. Further information: www.elintarvikevirasto.fi
- Hygiene statement and hygiene certificate issued by the health authorities: These documents are required when foodstuffs are exported to certain countries outside the EU (e.g. Russia and Estonia). Further information: www.hel.fi/ymk
- Certificate of conformity: This is required for most products exported to Russia, and has been issued to Gustav Paulig Ltd by SGS Inspection Services Oy. The tariff item code determines whether certification is necessary. Further information: www.kttk.fi
- International health certificate (plants and plant products): For export to Russia, products of plant origin must be provided with an international plant health certificate issued by a plant protection authority. Further information: www.kttk.fi

Involvement in business and trade organisations

Finnish organisations

- ECR Finland: The purpose of ECR Finland is to promote cooperation between trade and industry, especially in category management and logistics. Further information: www.ecr-finland.com
- The Finnish Food and Drink Industries' Federation: The FFDIF monitors the interests of Finland's food and drink companies in the context of business and labour market policy. It also functions as a forum for its members to work together in address-

ing the authorities, the retail trade, producers and other stakeholders. Further information: www.etl.fi

- Finnish Business & Society: This network seeks to promote cooperation between the private and public sectors in order to further sustainable social and economic development. Further information: www.businessandsociety.net
- The Association of Finnish Advertisers: The association promotes the interests of advertising purchasers in Finland, provides its members with advice on issues pertaining to marketing communications, and publishes the results of a number of research projects each year. Further information: www.mainostajat.fi
- Finnish Coffee Roasters' Association: The association creates added value for its members by working to improve the framework within which they operate. It strives to pool the resources of its members to better promote their interests, to work proactively, and from the vast volumes of information available to communicate the essentials to its members. The association also helps members achieve cost-efficiency through the production of joint services on its own or in collaboration with the European Coffee Association (EUCA). The Finnish Coffee Roasters' Association belongs to the FFDIF and is also a member of the European Coffee Association (EUCA).
- EUCA: The European Coffee Association is the umbrella organisation for coffee roasters' associations in Europe, and monitors the interests of member associations at the EU level. Further information: www.kahvi.net/paahtimoyhdistys
- The Environmental Register of Packaging PYR Ltd: Finnish legislation requires that companies take responsibility for the re-utilisation of the packages they bring to market. By entering into a contract with PYR, companies transfer their recovery obligation to the producer organisations. Paulig has made such a contract, and as a result has the right to use the PYR trademark. Further information: www.pyr.fi
- The Finnish Packaging Association: This association coordinates communications, public relations, publishing and training for the packaging sector. Further information: www.pakkaus.com

- Finnish Plastics Recycling Ltd: This is an organisation for plastics producers. Further information: www.suomenuusiomuovi.fi
- Specialty Coffee Association of Finland: A nationwide association for professionals in the field of speciality coffees, which seeks to promote quality and product awareness, and also to enhance coffee culture in Finland. Further information: www.seko-ry.com
- The Santa Claus Foundation: The purpose of this foundation is to promote the image of Finland as the home of Santa Claus, and to create ways for corporations and associations to benefit from this image. Profits resulting from the foundation's activities are distributed to charity. Paulig's Santa Claus coffee is the Foundation's official coffee. Further information: www.santaclausplaza.com

International organisations

- International Coffee Partners GmbH (ICP): A joint non-profit enterprise established in 2001 by five family-owned European companies operating in the coffee sector. ICP seeks to promote sustainable development in coffee producing countries by implementing projects that benefit the environment and people involved in coffee growing. ICP's Web pages are under development. Further information: www.paulig.fi
- Institute for Scientific Information on Coffee (ISIC): Established by Europe's largest coffee companies, ISIC works in cooperation with the International Coffee Organisation (ICO). ISIC is an umbrella organisation for CoSIC and PEC.
- Coffee Science Information Centre (CoSIC): Based in the UK, CoSIC is a coffee industry information centre that monitors global scientific research on the health effects of coffee, and produces reports for use by experts and consumers. Further information: www.cosic.org
- Physiological Effects of Coffee (PEC): PEC operates within ISIC and monitors and finances scientific research on the health effects of coffee.
- Specialty Coffee Association of America (SCAA). An association focusing on quality coffees, its members include organisations such as coffee houses, roasteries, growers, exporters and importers. Further information: www.scaa.org



Alongside advanced technology, there is still a strong tradition of coffee roasting as a craft. Packaging machine operator Pirjo Ilvonen performs a random check on a coffee package to ensure it is airtight.

REVIEW OF PERFORMANCE

Economic responsibility

Economic responsibility forms the foundation for corporate social responsibility. Through its profitable operations, Gustav Paulig Ltd is able to bear its responsibility for the environment and its stakeholders, and create employment and wealth.

Gustav Paulig Ltd is Finland's biggest coffee company and the market leader. It has a long track record of good profitability, which has secured the continuity of its operations and the financial well-being of its stakeholders. The company aims to maintain its market position in Finland, and to increase its share of selected markets abroad.

In the accounting period that ended in April 2003, the company recorded a net sales of nearly EUR 147 million and a good level of profitability. Coffee

production amounted to almost 35,000 tonnes (own brands and private labels), which is the equivalent of about 70 million coffee packets of 500 grammes. Around 38,000 tonnes of green coffee was purchased, and purchases of raw materials and other supplies totalled nearly EUR 76 million.

All the financial indicators have been calculated on the basis of the company's financial statements, which include all of the company's business areas. Gustav Paulig Ltd's profit for the period is reported as part of that of the Paulig Group.

The good profit figure that we achieved is the result of our knowledge of consumer needs, good customer relations, and long-term brand building, as well as the continuous development of our operational practices and processes.



Brand Manager Katri Ojalehto plans a campaign for Juhla Mokka coffee.

In the context of supply chain management, for example, we have combined our processes with those of our raw material and packaging material suppliers. As a result the suppliers receive real-time information about our production forecasts. This means that raw materials can now be taken into production at the optimum time, reducing storage requirements and releasing working capital. The increased efficiency has significantly reduced our interest and other financing expenses during the review period. In the near future we intend to further adapt our own processes to match those of our customers, which will improve the accuracy of our forecasting and enhance our reliability as a supplier.

Paulig makes its own contribution to the well-being of society through direct and indirect taxes, and pension and social security payments. It also makes statutory deductions from its employees' wages and salaries and pays these to the relevant authorities in full and on time.

During the financial year which ended in April 2003, the company employed 225 people. Employee wages and salaries, including the relevant social expenses, totalled around EUR 10.6 million. This figure also includes all taxable benefits such as company cars and mobile phones.

Contrary to the GRI recommendation, the taxes paid by Gustav Paulig Ltd are not shown in this report. This is because the company remits group contributions to its parent company, Paulig Ltd, and therefore the taxes paid by Gustav Paulig Ltd do not properly reflect the total amount of taxes paid.

Growth from new market areas and specialty coffees

Sales and market shares of Paulig coffees have grown at the same time as the overall size of the Finnish coffee market has remained unchanged.

In terms of consumer prices, the value of the retail coffee market in Finland amounts to about EUR 170 million per year. In terms of volume, Paulig's share of the Finnish market in traditional coffees is about 58%, and in specialty coffees about 36% (AC Nielsen, rolling 12-month ScanTrack survey, September 2003).

More than 90% of the coffee roasted by Paulig is sold in Finland, and about 10% in Eastern Europe. Paulig Ltd's subsidiary, Paulig Baltic Group, is responsible for sales and marketing in the Baltic countries and Russia. Coffee sales are growing in these markets.

The size of Finland's coffee market is expected to remain stable. Most of the coffee sold is traditional, light roast coffee, but interest in new types of coffee has increased. Specialty coffees are sold mainly in the Helsinki area and other growth centres, and they represent nearly 2% of Paulig's total coffee sales.

During the review period the consumer price of coffee has remained low as a result of the low world market price for green coffee. Raw material costs are the largest single factor affecting the price the consumer pays for coffee.

Well-known brands generate profits

Paulig's coffee brands Juhla Mokka and Presidentti are among the best known brands in Finland. Both will celebrate their 75th anniversary in 2004. Consumer surveys show that Juhla Mokka and Presidentti have long been the most preferred coffee brands in Finland (Taloustutkimus Oy, coffee survey). Nearly 80% of consumers spontaneously recognise Paulig's main brands (IRO Brandflow survey, May 2003). Moreover, a European Trusted Brands study indicated that Juhla Mokka was the most trusted coffee brand in Finland. The second most trusted brand was Presidentti and the third was Paulig (Reader's Digest, 2003).

As the leading company in its field, Paulig aims to develop the coffee markets and maintain the interest of consumers by introducing new products and concepts, and by enhancing the competence of those involved with coffee in a professional capacity. A recent example of a product innovation is Frezza, a ready-to-drink coffee that is enjoyed cold. Market research company AC Nielsen selected Frezza as the FMCG launch of 2002. The launch also won the AdProfit 2003 competition in the new products category.

CASE STUDY

The world of coffee is diversifying

Finns are the biggest coffee drinkers in the world: each year they consume about 10 kg of coffee per capita, or about five cups every day.

Coffee is a natural product and its taste varies according to the location where it is grown, weather conditions, and other factors. In fact the traditional brands are blended from more than 10 different kinds of green coffee to ensure that the flavour remains consistent from year to year.

Paulig's 'country of origin' coffees (Ethiopia, Columbia, Kenya and Guatemala) use only green coffee from that particular country. Therefore their flavour might vary from one season to the next. Of these brands, Colombia is an organic coffee.

The most popular coffee in Finland is traditional, light roasted coffee, which accounts for over 98% of total consumption (ACNielsen, rolling 12 month ScanTrack survey, September 2003). The market share of specialty coffees is steadily increasing outside the home. Paulig regularly monitors trends in consumer needs.

Traveling and the desire for variety have increased consumer interest in darker roasts. Paulig launched a dark roast version of its Presidentti brand at the beginning of 2003. It has been very well received in the markets.

Economic responsibility: key figures 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
Net sales	160 866	142 025	146 930
Wages and salaries, social expenses and fringe benefits	10 174	10 015	10 627
Cost of acquiring green coffee and other raw materials	84 848	72 561	75 894
Interest and other financial income	431	257	730
Interest and other financial expenses	3 226	1 982	395



The town is growing around Paulig. Today there are thousands of people living in the immediate vicinity of the roasting plant. This makes responsibility for the surrounding area an important part of Paulig's corporate social responsibility.

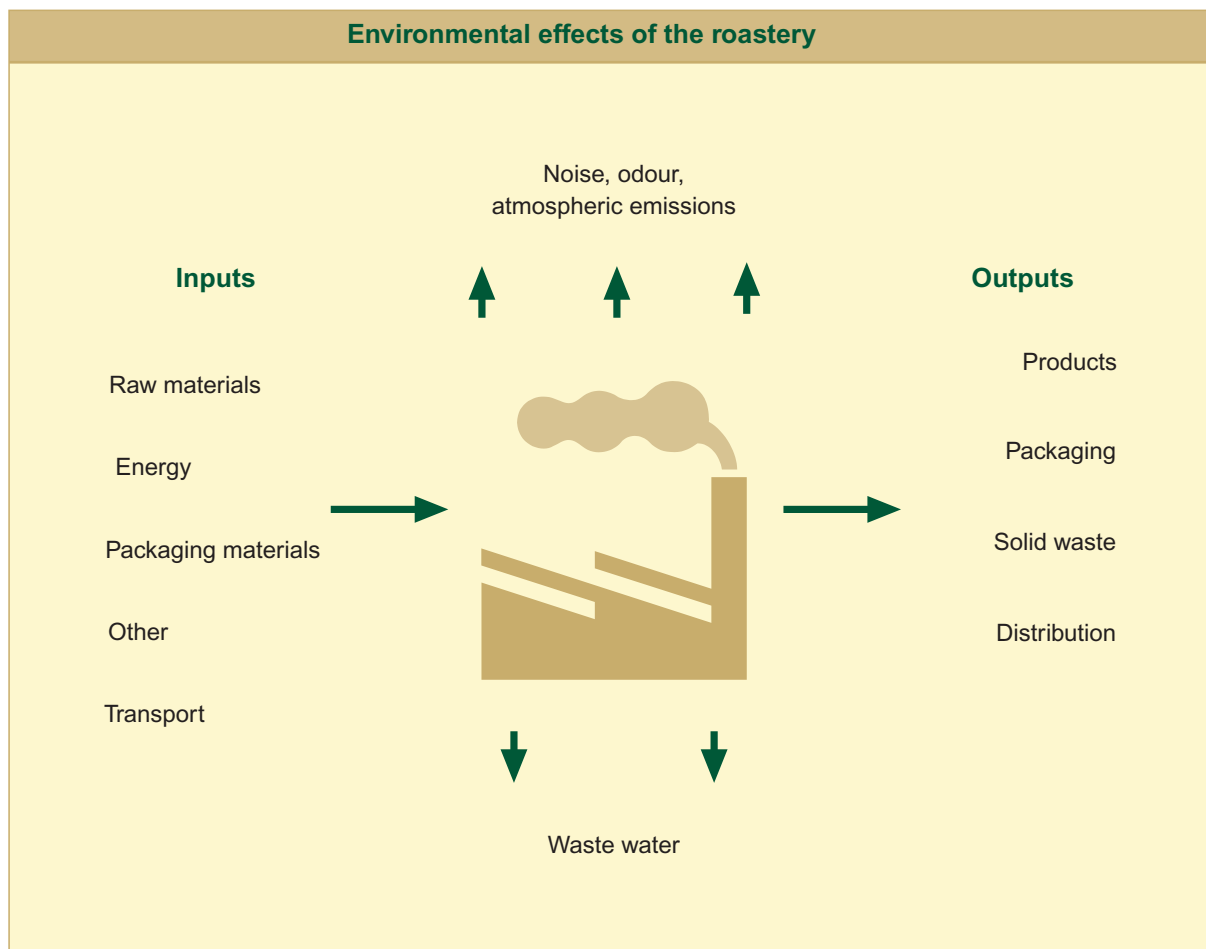
ENVIRONMENTAL RESPONSIBILITY

The objective of Gustav Paulig Ltd's environmental policy – which is presently being revised – is to ensure that environmental protection is taken into consideration in all phases of the value chain, and to minimise roaster's environmental impacts. The company has decided to set up an environmental system based on the ISO 14001 standard during the course of 2004.

The Vuosaari roasting plant has an environmental permit issued by the City of Helsinki Environmental Committee in 1996. This confers the right to undertake industrial activity during weekdays in two shifts from 07:00 to 23:00, and during weekends as necessary. The roasting plant is monitored by the City of Helsinki Environment Centre, and the operation of the plant is reviewed with the Centre's representatives at least once each year. As a result of a change in legislation during 2000, the environmental permit will be re-evaluated during the course of 2003.

In the spring of 2000 an environmental review in accordance with the ISO 14001 standard was undertaken at Paulig. The review showed that the environmental impacts of the coffee production are minor. The location of the roastery in the midst of a growing residential area does, however, impose its own special demands. The key environmental factors are the odour, noise, traffic and similar problems, rather than process emissions from the plant. The areas for improvement that were revealed by the environmental review are described at the end of this section.

It is important for Paulig that local residents are not adversely affected by the operation of the roasting plant, and complaints from neighbours represent a significant means of monitoring environmental impacts. Paulig began working with residents as soon as new residential buildings were completed in the immediate vicinity of the roastery. In September 2002 Paulig invited residents of neighbouring buildings to discuss matters of joint interest and to learn about the roasting



plant's activities. After the meeting, the residents were also provided with written material.

In the coffee producing countries Paulig can indirectly influence environmental matters through its local partners, through involvement in joint international coffee projects, as well as through the projects organised by International Coffee Partners.

Environmental impacts of roasting process

During the financial year which ended in April 2003, Paulig produced 34,540 tonnes of coffee. The roastery's atmospheric emissions mainly comprise carbon dioxide, which is formed through the combustion of natural gas during the roasting process, as well as constituents of the roasted coffee which produce odours. Steam is also released into the atmosphere.

The figures for 2001 are based on samples taken by VTT Technical Research Centre of Finland, simulations conducted by the engineering consultancy Jaakko Pöyry, and also data provided by the equipment supplier, Probat Werke GmbH.

In comparison with other roasting plants, the emissions of the Vuosaari plant are at the same or a lower level. Emission levels have not been simulated since 2001 because they can be estimated with a sufficient degree of accuracy on the basis of production volumes, which have not significantly changed during the review period.

Emissions from Vuosaari roastery

Year (tonnes)	2000	2001	2002
Dust particles	1	1	1,1
Hydrocarbons	20	20	22
Carbon monoxides	99	100	109
Carbon dioxides	5140	5400	5650
Sulphur dioxides	0,02	0,02	0,02

The figures for 2001 are based on samples taken by VTT Technical Research Centre of Finland, simulations conducted by engineering consultancy Jaakko Pöyry, and also data provided by equipment supplier Probat Werke GmbH.

Coffee production (kg) by financial year

Financial year	1.5.2000 - 30.4.2001	1.5.2001 - 30.4.2002	1.5.2002 - 30.4.2003
Production* (kg)	32 600 000	34 600 000	34 540 000
* includes exports and contract production			

Noise levels were last measured in 2000. The levels were below the set limits.

Natural gas combustion accounts for half of the roastery's carbon dioxide emissions (CO2), and the roasting of coffee beans accounts for the other half. Carbon dioxide produced by non-renewable fuel, i.e. natural gas, is considered as emission. Paulig's carbon dioxide emissions amount to around 0.3% of the carbon dioxide emissions produced by the nearby Vuosaari power plant.

Dust particles arising during the production process do not travel very far because most of the dust is separated out during the process using cyclones. The quantities of hydrocarbon compounds, such as aldehydes, furans and ketones, are also low. The odours emitted into the atmosphere at the end of the roasting process consist of these hydrocarbons.

Sulphur dioxide emissions are very low because the roastery now utilises only low-sulphur natural gas from

From the beginning of 2003 onwards the disposable polystyrene pallets were replaced by returnable display pallets.



Siberia. Use of liquefied gas came to an end in 2002, at which time the liquefied gas storage tanks were dismantled and removed from the Vuosaari property.

A hazard assessment update conducted during spring 2002, which is required for the use of natural gas, showed that Paulig's equipment, piping and safety systems were in order.

Concrete action to reduce environmental impacts

During the review period, the most significant environmental measure taken by Paulig was to switch from polystyrene display pallets to wood-based returnable pallets. The pallets are used to transport the coffee to retail outlets, and are also often used to display the product in the shops. About 700 pallets are needed each day.

The pallets were changed at the beginning of 2003. At the same time the polystyrene pallet plant at the Vuosaari facility was closed, and this has helped to make the area cleaner and safer.

The packaging in which green coffee is transported accounts for a significant proportion of the waste produced by the roastery. The amount of this waste has decreased significantly since 1996, however, when the traditional 60 kg jute bags began to be replaced with plastic in-leds which fill an entire container. Today, about 90% of all green coffee is shipped in this way. This has also reduced land and sea transportation by about 200 containers per year as a large-size in-led can hold 15% more coffee in a container than the previously used jute bags. The new in-leds are also more durable and easier to handle, which has reduced the need for heavy - and possibly dangerous - manual labour.

Each year, the Paulig Institute provides training for about 3,000 professionals working in the food service sector. In spring 2003 the Institute's coffee and seasonings courses began to separate their organic, glass and combustible waste. At the same time, disposable protective coats were replaced by washable textile aprons.



Coffee grounds are a form of organic waste. Marke Haapsaari holds a course on coffee for food service professionals.



Large-size in-lets that fill an entire container have replaced the smaller jute bags, reducing waste.

Good product quality is also of benefit to the environment. Resources are saved when products do not need to be returned. By measuring the vacuum in coffee packets, for example, the number of complaints and product returns has been further reduced. Detailed figures were not available at the time this report was compiled.

Moderate increase in energy consumption

Gustav Paulig Ltd's energy consumption has not increased significantly. Total consumption of electricity, natural gas and district heating in 2002 amounted to 28,740 MWh, which is 3.3% higher than in the previous year. In 2001, total energy consumption was 27,831 MWh and in 2000 it was 26,319 MWh.

The Helsinki Energy utility issues a report on energy and natural gas consumption each calendar year. In addition to Gustav Paulig Ltd's products, the figures also cover production of mineral salt.

Electricity consumption increased some 6% from 2001 to 2002. During the same period consumption of district heating fell by 5% and consumption of natural gas increased by about 6%. The increase in consumption of electricity and natural gas is in direct proportion to the increase in production.

Gustav Paulig Ltd seeks to take energy efficiency into account in all its investments. One way in which energy efficiency has been improved is through the

Energy consumption by calendar year (MWh)

The figures in parentheses show the increase/decrease on the previous year (rounded percentages).

Calendar year	2000	2001		2002	
Electricity (MWh)	7 209	7 824	(+ 8,5 %)	8 298	(+ 6,1 %)
District heating (MWh)	5 891	6 794	(+ 15,3 %)	6 454	(- 5 %)
Natural gas (MWh)	13 219	13 213	(0 %)	13 988	(+ 5,9 %)

utilisation of waste heat. For example, waste heat produced by the mills in the roasting plant is used to heat the coffee silos.

Improvements in recycling and reuse of packaging materials

The retail sector is seeking ways to reduce the quantity of packaging material used and to increase recycling, but without compromising the durability of packages. An EU directive approved in 2003 specifies that 55% of all packaging materials must be recycled by 2007.

Paulig made an environmental friendly investment decision in 1995, when it became the first coffee producer in Finland to introduce single laminate packages without the traditional cardboard box. This change decreased the amount of packaging waste, reduced transportation needs, and freed up storage space. Today, all coffee is packed in single laminate packages, which take up almost 20% less space than the former packages.

With present-day technology it is difficult to find alternatives for aluminium reinforced laminated packaging. The laminate can be used to produce energy in industry, and in some places it is already being collected as combustible waste. Disposal instructions are printed on all packages.

Paulig supplies larger batches of waste laminate and PE film to Muovix Oy, which manufactures tables and park benches from recycled materials. Further information: www.muovix.fi

The vast majority of the packaging material required by Paulig is delivered by two suppliers. Individual, bilateral quality agreements have been made with each, as is the case with all major materials suppliers. The most important materials suppliers have ISO 9000 and ISO 14001 standard certification.

Gustav Paulig Ltd is a member of the Environmental Register of Packaging (PYR Ltd) which has been set up by businesses and the packaging sector. Member companies have transferred their obligation to recover the packages they bring to market to the PYR producer organisations. Paulig has the right to use the PYR trademark. Further information: www.pyr.fi

Road haulage reduced

Gustav Paulig Ltd does not have its own vehicles for transportation; its logistics partners deliver green coffee from the port direct to the Vuosaari facility. The central wholesalers and other customers collect the finished products direct from the plant.

All of Paulig's logistics partners, whether they are responsible for road haulage in Finland or abroad, or for the shipment of green coffee across the Atlantic to Europe, have a certified ISO 9000 quality system and ISO 14001 environmental system, or are setting up such systems.

A good start was made in spring 2002 in efforts to reduce total road haulage distances, when Paulig conducted a review of transportation efficiency with key customers. Under a new logistics agreement, the central wholesalers now collect their coffee with the largest vehicles available. Figures to show the results achieved by this new practice are not yet available.

Other measures have also been taken to rationalise the volume of traffic. Paulig has outsourced the planning, production and storage of equipment used at fairs and similar events to a single partner, for example, and this has reduced the overall distances that this equipment has to be transported.

Areas for improvement as revealed by environmental review

Based on the environmental review, Gustav Paulig Ltd's primary environmental task is to reduce odour emissions from the roastery.

This task is made awkward by the fact that it is difficult to measure the odours involved. Personal opinion also plays a fairly important role: some people like the smell of coffee, while others do not.

Environmental impacts are reduced when coffee is transported in large vehicles. A lorry operated by the L & L haulage company collects a shipment of coffee for Kesko.



Waste volumes (tonnes/financial year, source Sita Oy)			
Financial year	1.5.2000 - 30.4.2001	1.5.2001 - 30.4.2002	1.5.2002 - 30.4.2003
Mixed waste	386,1	513,0	431,2
Cardboard	22,3	74,5*	25,7
Combustible waste	112,6	33,2	59,7
Organic waste (no. of collection trips)	data not collected	400	216
Paper	4,4	18,7*	3,6
Construction waste	0	1,8	8,4
Hazardous waste	method of calculation changed	3	1,4
Metal	14,3	9,2	26,3

*The 2001-2002 figures for cardboard and paper are based on the number of times collected. They are therefore not comparable with the figures for the other years, which are based on the weighing of loads.

The intensity of the odours released towards the end of the roasting process depends on the degree of roasting, the wind direction and the air pressure. Dark roasted coffees have a stronger smell than the light roasted types. Dark roasted coffee represents about 1% of all the coffee produced by Paulig.

Paulig commissioned the Finnish Meteorological Institute to perform air quality measurements in Vuosaari in 1996 and 1997. The results indicated that the odour was strongest inside the plant area, followed by places to the north and east of the facility. No new studies have been made during the review period, even though minor improvements have been made to the production process.

Air leaving the conveyor system for roasted and ground coffee is passed through zeolite filters, which reduces odours by about a third.

Odour emissions were also reduced during 2002 through the introduction of air recirculation to four of the coffee conveyor systems. These systems carry 60% of all the coffee produced by Paulig.

It has not yet been possible to develop fully effective solutions to reduce odour emissions. Odour reducing catalytic converters do not yet exist, and, in any case, use of such equipment would increase carbon dioxide emissions.

The second area for improvement involves waste reduction and more effective waste sorting. Much

progress has been made in these areas: during the financial year which ended in April 2003, considerable improvements were made in waste sorting and the amount of mixed waste was reduced.

During the last financial year, the amount of mixed waste, recyclable paper and board, and organic waste was reduced. The amount of combustible waste, and construction and metal waste increased, however. Mixed waste is now used to produce energy. The increase in the amount of construction and metal waste is a result of a renovation project and other improvements carried out at the roastery.

The largest relative reduction involved recyclable paper and board, and the largest relative increase involved construction waste. All metal waste is supplied for reuse, and all hazardous waste is delivered to a specialised processing plant.

In the financial year starting in May 2003, waste management and reporting is the responsibility of Lassila & Tikanoja Oy, which will work with Paulig to further develop the handling of the company's waste. Waste containers fitted with an alarm system were introduced in spring 2003. A GSM link informs the waste management company when a container is full, so that partly filled containers are no longer collected. This considerably reduces the number of trips.

In contrast to many other companies in the foodstuffs sector, washing and wastewater do not cause difficulties for Paulig. Process waters originate only through

the soaking of coffee chaff wastes. The coffee chaff sludge arising in production is discharged - with the permission of the city authorities - to the sewage system, which carries it to the sewage treatment plant. Water consumption and the amount of coffee chaff sludge were last measured in 2000, when water consumption amounted to 22,453 cubic metres and 2,700 cubic metres of coffee chaff sludge was produced.

The third area for improvement is noise reduction. Paavo Ristola Oy, a company of engineering consultants, measured the roastery's noise levels in 2000 and found that most of the noise remains within the facility. The noise level at the edge of the roasting plant area was about 50 dB, which is below the legal requirement of 55 dB. The noise is primarily caused by the cooling air inlets and outlets on the roasting machines, the roasting fume outlets, and the outlets taking air out of the packaging and production areas. The largest outlet ducts are equipped with silencers. The installation of silencers on the smaller ducts would not provide much benefit, and would be very expensive relative to the benefits obtained.

Noise levels in the plant are measured at regular intervals and work is done to reduce noise problems. Measures to make the working environment more comfortable for employees have included insulating the pipework through which the coffee beans are transported. Further reductions in noise levels are technically possible, but represent a challenge.

As specified in the relevant legislation, Paulig identifies and utilises as far as possible the Best Available Techniques (BAT) from the environmental standpoint. In early 2003, a project was undertaken to investigate whether afterburners could be used to reduce odours and emissions. Catalytic converters cannot withstand the alternating hot and cold conditions caused by the cyclical nature of the roasting process, however, and therefore cannot be used for this purpose.

Other alternatives investigated included the installation of separate afterburners on each roasting unit and the establishment of a centralised burning unit. It was found, however, that these alternatives would increase energy consumption and therefore also carbon dioxide emissions. The investment and operating costs would also be considerable. As Paulig's emissions are low, using afterburners could not be justified with currently available technology.

CASE STUDY

Developing of waste sorting

In 2002 work was begun to systematically develop waste sorting in the company, and also to provide relevant training for employees. At the beginning of 2003 two training programmes were organised for all personnel, and in mid 2003 separate training sessions were held for production and office employees.

A system of colour codes has been created for the different types of waste, and colour-coded waste containers have been deployed. The number of waste containers has been increased, and more will be provided if requested by employees. Every office has been supplied with a multi-compartment bin.

In May 2003 Paulig started using new remote-controlled press containers for mixed waste and cardboard, as well as two new press containers for combustible waste. The new presses have made the company's waste logistics more efficient.

Further training in waste sorting will be provided for all employees in autumn 2003. Special training in the handling of hazardous waste will be given to maintenance employees, electricians, and property maintenance personnel. The company is now seeking to ensure that office personnel and employees of external service providers are able to sort waste more effectively.

Areas for improvement in Gustav Paulig Ltd's environmental responsibility

Continue to search for new ways to reduce odour emissions.

Provide local residents with more comprehensive information on environmental issues.

Continue to improve the sorting of waste with further training for employees.



One of the points along the coffee route from the tree to the consumer. Half of the employees at Paulig work in sales, trade marketing, logistics and administration. From the left: Assistant Brand Manager Robin Hallberg, Sales Assistant Suvi Rönnerberg, Brand Manager Iiro Jussila, Key Account Manager Lars Ahlroth and Customer Marketing Manager Mari Paaso.

SOCIAL RESPONSIBILITY

For Gustav Paulig Ltd, the main areas of social responsibility are responsibility for company personnel and responsibility in the supply chain. In the latter case the emphasis is on responsibility towards the coffee producing countries.

Social responsibility also includes other areas important to Paulig, such as responsibility for the immediate surroundings, support for charitable activities, dialogue with stakeholders, and consumer protection.

Responsibility for employees

Gustav Paulig Ltd's personnel policy was reformulated in early 2003. The objectives of the policy are

based on the Group's values, which are quality, trust and respect for people, multicultural approach, innovativeness and openness. We aim for our personnel to be competent and motivated.

The company's quality policy also focuses on the personnel. We aim to provide interesting goals and challenges which our employees will want to commit themselves to. We seek solutions that take social responsibility into account.

Quality manifests itself in many ways in Paulig's personnel management: the company has defined its areas of core competence; a personnel manage-

ment representative is involved in the recruitment process; internal training is extensive; employment relations issues are dealt with in an appropriate manner; and there is effective communication between the personnel and corporate management.

Measures were taken to significantly develop Paulig's management systems and process management during the review period. The company's personnel were extensively involved in the development process and influenced the final result. The procedures followed in implementing the development projects were intended to increase the opportunities for individual employees to influence corporate matters, so that all members of the personnel could utilise their own competencies and the changes could be realised in a swift manner.

In December 2002, Gustav Paulig Ltd received a commendation from Fakta business magazine for its leadership. The grounds for the commendation were stated as being: the extensive development programmes carried out in the organisation; success in combining process management with competence management; collaborative learning; and support for employees' individual development.

People at Paulig

During the financial year that ended in April 2003, Gustav Paulig Ltd employed 225 people, of whom 100 were blue-collar and 125 white-collar employees. In the previous financial year, the company employed 216 people.

More than 90% of the wage earning employees are members of the Finnish Food Workers' Union (SEL). The company does not have information on how many of the salaried employees are union members, because in their case union membership fees are not deducted directly from their salary.

Women represent 51% of all employees and men 49%. The average age of employees is 43 years and the average duration of employment 13.5 years. During 2002, as in earlier years, turnover in personnel was around 2% or so. Five people retired from the company during the financial year.

According to the company's equal opportunity plan, which has been in force for a number of years, men and women will be provided equal opportunities for training and career advancement. In recruiting, too, the competence of the candidates is the decisive factor. Women represent 35% of our managerial staff, and there is one female member of the company's management team.



Product specialist Sirkku Boström, a home economics teacher, answers some 6,000 questions from customers and consumers each year.

All personnel are covered by the company's results-based bonus system. In addition to financial results, the bonus criteria also include process-specific indicators defined for teams and individual employees.

The company has made efforts to help its employees combine their work and family life. In the spring of 2003, for instance, two managers were working four-day weeks, and employees also utilise the job alternation leave opportunities provided by Finland's legislation. Six Paulig employees had taken partial retirement. Roastery employees with young children (under 10 years) can choose single-shift working, and all personnel can have a childminder look after a sick child at home at the company's expense. Paulig has also developed teleworking opportunities.

The company promotes the mental and physical well-being of its personnel by providing occupational healthcare, as well as by supporting the recreational activities of its employees. There are around twenty clubs for different leisure activities, and employees have access to weekend and holiday homes. Each year the company arranges a children's party for employees' families, as well as special summer and winter events.

Listening and communicating

The Paulig Group companies in Finland and Estonia have an advisory committee which acts as a dis-

discussion forum, linking personnel and corporate management, and provides employees with a means of influencing company matters. The advisory committee discusses such issues as the annual plans, budgets and financial statements of Paulig Ltd and its subsidiaries as required by Finland's legislation on cooperation within undertakings.

Blue-collar and white-collar employees elect representatives to the advisory committee every two years. The employer representatives are appointed by the Board of Directors of Paulig Ltd.

In addition to the advisory committee, Gustav Paulig Ltd also arranges a Managing Director's review twice a year for the personnel, and joint meetings when necessary. The departments within the company generally arrange their own meetings once a month. The company also operates a system to encourage initiatives.

Every year, Paulig arranges a "Management Forum" for supervisors and other specialised staff to develop current business themes. Participants have the chance to influence the development of the company and to network. In addition, the company arranges process reviews to examine on-going development projects and provide information on progress that has been made.

Employees receive additional information about the company and its activities from their supervisors, the Intranet and a weekly bulletin. The Paulig Reporter and Paulig Group Journal newsletters provide information at the Group level.

Goal-oriented development

Goal-oriented measures to promote corporate development during the review period included tailored training programmes. The main training courses are recorded, but the company does not yet have a systematic method for computing the number of training days per employee.

In addition to internal training programmes, employees also take part in external training organised by universities, colleges and training institutes in Finland and abroad (including Insead). Paulig is also involved in the Corporate MBA programme organised by the Corporate Competence Academy.

In addition to training and courses, development activities also include skills mapping, career planning, task rotation and project work. Employees are encouraged to be proactive, and everyone at Paulig is responsible for their own development.

During the financial year that ended in April 2003, Paulig's white-collar employees received an estimated average of 72 hours of training each, and blue-collar employees 32 hours of training. These figures do not include learning on the job, which is also an important form of training.

Employees are encouraged to try different tasks, and career rotation works particularly well in sales and marketing. Project work also provides many learning opportunities.

The company arranges development discussions once a year, while meetings to appraise personal goals being held twice a year. Development discussions are organised for all members of the personnel: employees invite their superior for a meeting, where the employee's strengths and areas for further development are mapped out and career plans reviewed. A personal development plan is prepared on the basis of the meeting.

The meetings to discuss employees' personal goals are led by superiors and serve to define the goals and indicators for monitoring their achievement. An objective agreement is prepared on the basis of the meeting.

Warehouse worker Tomi Eriksson stacks pallets of coffee to await transportation to the central wholesalers' warehouses.



CASE STUDY

Training provided information and improved workplace atmosphere

Paulig has conducted GUSBI surveys to monitor the workplace atmosphere for a number of years. The latest of these was undertaken in the spring of 2003 by Gallup Insight. Where necessary the questions have been slightly modified over the years in line with changes in the organisation, and therefore the results from different years are not entirely comparable.

Survey topics include supervision, the meaningfulness of tasks, Paulig as an employer, communications, the workplace atmosphere, and perceptions of whether operations flow effectively and are goal-directed.

The company's organisational structure was changed at the beginning of 2000. The conventional operating model was replaced by a more process-based one, and this change was also reflected in the survey results. The implementation of major changes requires determination.

Discussions about the survey results produced the idea for a new training programme targeting all employees and entitled "From bean to cup – from bush to pot". The programme focused on better cooperative skills, in-depth knowledge of the company's operations and the various processes, and the significance of the individual's role within the process organisation.

During the year all employees participated in the three-stage training. The feedback concerning the content and scope of the training was extremely positive, and the results of the GUSBI survey also improved.

Occupational health and safety achievements:

Lower absence rates than in the food industry on average.

Fewer occupational diseases and work-related accidents than in the food industry on average, thanks to occupational health and safety measures.

Low rate of early retirement.

Individual keep-fit programmes promote coping at work.

Wide range of training opportunities

During the review period, the company arranged a large number of internal training opportunities for all personnel members.

Paulig's competence development project, implemented in the autumn of 2002, focused on defining core competencies and on competence evaluation. The project and related personnel training for development discussions were aimed at ensuring that competence development and competence levels will continue to be in line with the company's strategy in the future.

A coffee training project was begun in January 2003 and is still on-going. This aims to ensure that all the people working at Paulig have broad knowledge in the field of coffee. In future this training will become an essential part of the company's initial training program.

Promoting good occupational health

Gustav Paulig Ltd's occupational health services are primarily aimed at ensuring the overall well-being of the company's personnel. The company has a full-time company nurse and a part-time company doctor.

In the financial year that ended in April 2003, absences due to sickness totalled 7.2 workdays per person. The figure had remained the same as in the previous year.

Each employee has a thorough physical examination every five years. As part of the examination, the employees are asked to evaluate how well they will be able to cope with their workload up until their retirement. From autumn 2003 onwards, all Paulig employees over 50 will be offered the opportunity to take the physical examination every three years.

As part of the company's preventive healthcare, employees have the chance to participate in different activities, including individual keep-fit programmes, exercise clubs and weight management groups.

Paulig already has a good understanding of the basic health issues affecting its employees. In the future, occupational healthcare will be concentrating more and more on understanding the atmosphere in the workplace and promoting employees' mental well-being.

Finland's new occupational healthcare legislation also requires that employee workloads should be evaluated more efficiently to better balance the requirements of the work and the abilities of the employee.

From physical safety to mental well-being

Favourable progress has been made in both occupational health and safety. Extensive automation has reduced the amount of manual labour – which tends to involve risks - and there are hardly any cases of occupational diseases or work-related accidents.

In the future, occupational protection will focus on the mental well-being aspects of occupational safety and on support for employees in coping with their work.

During the financial year that ended in April 2003, work-related accidents resulted in 0.3 absence days per person. During the previous financial year the figure was 0.8.

Occupational protection and safety issues are coordinated by an occupational protection committee which convenes at least four times a year.

The committee consists of an Occupational Safety Manager appointed by the company, delegates appointed by the blue-collar and white-collar employees, the company nurse and doctor, and two external experts appointed by the company.

Each department has occupational health and safety representatives elected by both the blue-collar and white-collar employees. The network of representatives ensures that any occupational safety and health related issues are dealt with proactively and swiftly.

Annual occupational protection inspections are conducted in every department. The occupational safety committee coordinates the work to rectify any issues identified by these inspections.

New machinery and equipment are safety inspected in accordance with the relevant legislation. In addition, the department concerned always performs a commissioning inspection before new machinery or equipment is approved.

Gustav Paulig Ltd has prepared a statutory safety plan, which was updated in June 2002. In accordance with the safety plan, employees have been trained to prevent dangers from occurring and to act correctly in case of emergencies. Employees have also received training on the safety plan, and have been provided with a copy of the safety guidebook which is based on the plan.

The plan was put to test in the summer of 2002 when Paulig arranged an emergency drill in cooperation with Pohjola insurance company and the City of Helsinki Rescue Department. Issues identified during the exercise were corrected before the end of 2002.

CASE STUDY

GUSBI survey results for spring 2003

Employees feel that the company has clearly-defined goals, and that feedback is given on progress towards these goals. They consider that their work provides opportunities to act independently and also to learn new things.

Supervisors are regarded as accessible and supportive, and are seen as creating the right conditions for employees to do their work properly. According to the survey results, however, encouragement and positive feedback from supervisors has decreased slightly.

The atmosphere in the various departments and interpersonal relationships received a high rating. Colleagues help and support each other in their work and interaction is perceived as reasonably open. Official corporate communications were commended.

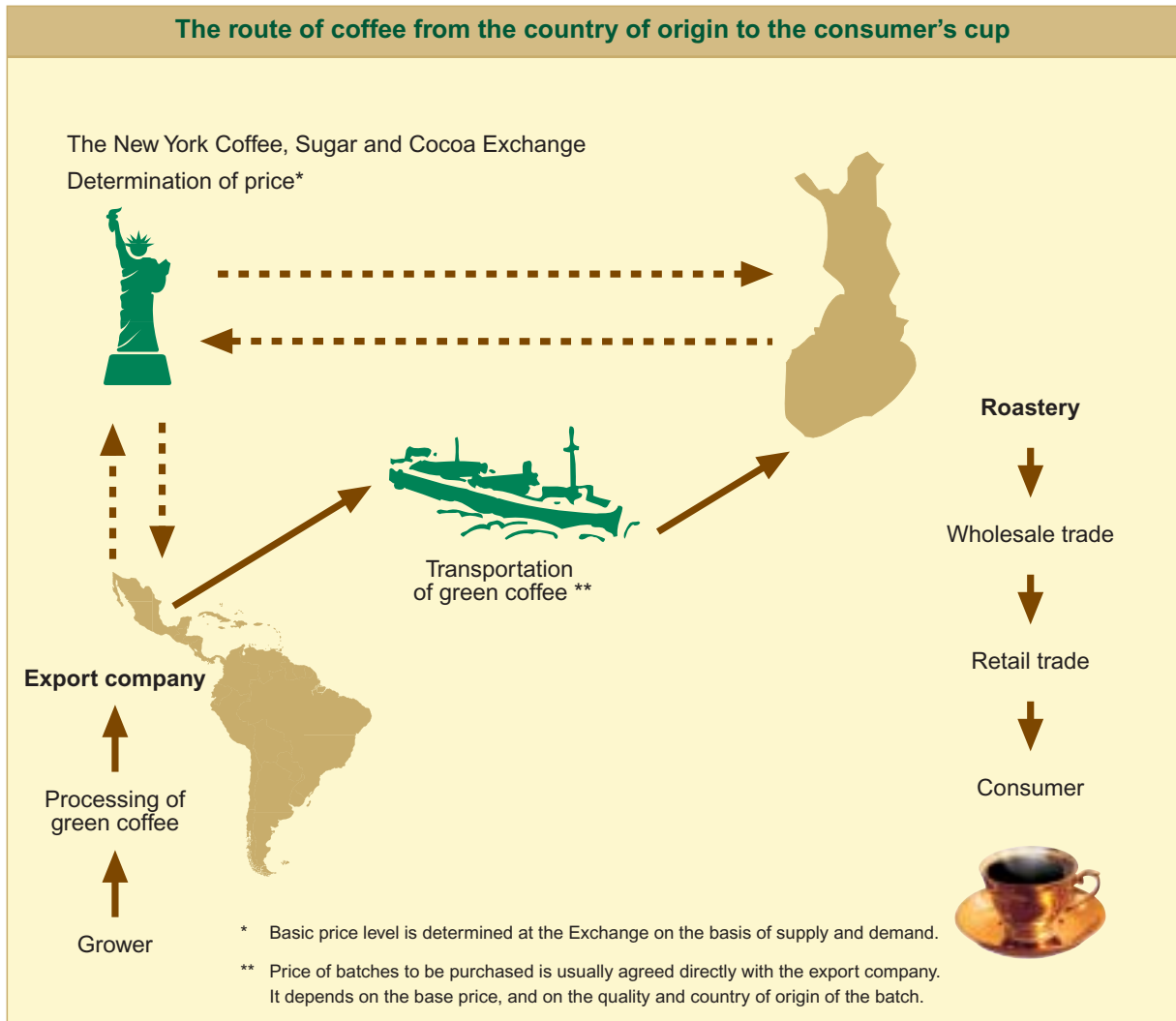
According to the personnel, Paulig's processes focus on quality and the effective flow of operations. Employees feel that they are supported in their efforts to develop professionally and that the company takes reasonable care of their well-being.

The survey also revealed areas for improvement. Based on the results, Paulig plans to make communication between internal processes more efficient, improve the flow of information between different processes, and strengthen cooperation.

Supervisors are committed to paying even closer attention to the effective functioning of the work community and to the improvement of the workplace atmosphere. This is also one of the criteria in the company's results-based bonus system. The objective is to give more feedback and to more effectively acknowledge good performance and extra effort.

In addition, the company aims to rectify defects in task organisation and to eliminate overlaps. It also seeks to reduce work-related stress, because the survey showed that one in four employees feels pressured at work. At the same time, however, employees considered that the overall workload had decreased slightly.

Paulig received the survey results in the spring of 2003. At the time this report was compiled there was no information available on progress towards the objectives that were set on the basis of the results.



Social responsibility in coffee production chain

Green coffee is one of the main products in global trade. In terms of value, it is the second most traded commodity in the world after oil. Each year, approximately six million tonnes of green coffee is produced in the world, an amount equivalent to 105-110 million 60 kg bags. Brazil, Columbia and Vietnam are the three leading producers of coffee in the world, with Brazil producing approximately one third of all green coffee.

Though Gustav Paulig Ltd is a significant coffee buyer in Finland, on a global scale its purchases are relatively small. In the financial year that ended in April 2003, the company purchased over 38,000 tonnes of green coffee, mainly from Brazil, Columbia, Guatemala, Costa Rica, Kenya and Ethiopia.

Ethical principles of coffee purchasing

Paulig purchases its coffee either directly from exporters in the country of origin, or from European coffee trading houses. During the period under review, Paulig stepped up cooperation with green coffee suppliers, entering into longer term partnership agreements.

Paulig's coffee buyers make regular visits to the coffee growing countries and coffee farms to keep their knowledge about coffee production up-to-date. The visits also provide the buyers with a chance to influence the work of the coffee exporters.

Involving partners

An important aspect of corporate responsibility for Paulig is to require that subcontractors and business partners comply with Paulig's ethical procurement principles. The guidelines contain requirements on matters such as working conditions, wage levels and the number of working hours.

In January 2003, Paulig supplied its partners in the import and export trade with the company's ethical procurement principles, asking them to evaluate their own operations and report back on any issues that needed to be corrected as well as plans to do so.

By June 2003, 27 of Paulig's 33 partners had responded. Of these, 11 partners reported that their operations complied with Paulig's principles. Five had their own policy or programme for promoting ethical operating methods, and five partners were cooperating with other partners. In addition, ten or so announced that they accepted Paulig's ethical principles. The responses showed that the importance attached to corporate responsibility varies between partners, and that there is still room for improvement.

Paulig has in fact resolved to revise the conditions on which it purchases green coffee. The list of approved suppliers will be reviewed accordingly. If there is evidence that the conditions are being violated, Paulig will cease doing business with the partner in question. New suppliers and current suppliers suspected of acting in violation of the principles will be required to ensure that their operating methods are in accordance with Paulig's ethical procurement conditions.

A major part of the world's coffee crop is grown on small farms.



Gustav Paulig Ltd has already terminated business relationships with coffee producing countries or business partners whose operations are in violation of the principles or are believed to be at risk of violating the principles.

The decisions not to purchase green coffee from Zimbabwe, and earlier from Nicaragua, are practical examples of this.

Child labour

Child labour is a complex issue in coffee producing countries, and is usually linked to poverty. As each country has its own problems to deal with, there is no one single solution to end the use of child labour.

According to the International Labour Organization (ILO), 14-year-olds in developing countries may engage in work, as long as the work is not hazardous or heavy and the working days are not unreasonably long. Children under 14 are also allowed to do some light work, provided that the work does not violate their basic rights or prevent them from attending school. More information on the matter can be found at: www.ilo.org

Paulig's ethical principals are in line with the ILO's guidelines. The company does not approve the use of child labour or forced labour.

Paulig belongs to International Coffee Partners GmbH, a company formed by five European family-owned businesses in the coffee industry. ICP carries out projects to help small farmers to improve their coffee growing methods and enhance their working and living conditions, in accordance with the principles of sustainable development. These activities also benefit the farmers' children.

Green coffee price crisis

The world market price for green coffee is at an all time low at the moment. The price has dropped nearly 70% in five years, and in real terms it is at its lowest for one hundred years. The drop has been caused by an imbalance between supply and demand. Coffee growers have seen a significant drop in their income, and several Central American countries are producing coffee below cost price.

Solutions suggested by the International Coffee Organization (ICO) to resolve the price crisis are that growers should either concentrate on producing quality coffee grades, for which consumers are ready to pay extra, or expand into other products.

In practice, it is difficult to find alternative crops that provide a sufficient yield, and changing or diversifying



To obtain the best quality, coffee should be quickly processed after harvesting. The ICP Guatemala project has helped smaller farmers by building environmentally friendly processing plants, and covered drying patios for the coffee.

production often requires financing. Growers must be supported if we want to improve coffee quality or ensure that coffee is produced in accordance with the principles of sustainable development. Further information: www.ico.org and www.sustainable-coffee.de

The introduction of high-priced quality coffees or organic coffees into the market is one solution but it will not produce very fast results, as demand for these products is still relatively modest. One example of these types of product is Paulig's Guatemala coffee: the company pays the growers a price that is considerably higher than the world market price for the green coffee, which is grown in accordance with the principles of sustainable development.

Paulig has received some inquiries concerning Fair Trade coffee. So far, the company has not launched its own Fair Trade coffee product, because present supplies easily satisfy market demand. Paulig does produce Fair Trade coffee for one of its customers (Kesko Food), in accordance with the Fair Trade principles.

Tangible help in coffee producing countries

For Paulig, ensuring the prerequisites of successful coffee cultivation is of vital importance. For this reason, in the autumn of 2001 Paulig and four other European coffee companies formed International Coffee Partners GmbH (ICP), a company that undertakes development projects in countries of origin.

ICP is a non-profit organisation which carries out projects based on the principles of sustainable development in coffee producing countries. The projects aim to permanently improve the living conditions of coffee growers and to develop sustainable coffee growing and processing techniques. They are carried out by the public and private sectors together, and last for two to three years. ICP starts two or three new projects every year.

The projects launched by ICP in the autumn of 2001 in Honduras and Guatemala will continue until autumn 2004. The latest projects began at the beginning of 2003 in the Dominican Republic and Cameroon. No project results of these last mentioned were available for inclusion in this report.

Dominican Republic

The Dominican Republic project area has seen a decrease in coffee production and a decline in growers' incomes. The goals of the project are to improve coffee quality, increase the growers' incomes and adopt environmentally friendly coffee growing techniques and methods. The farmers' skills are promoted by providing them with the appropriate tools and equipment.

Of the total project cost of EUR 941,200 ICP provides 43% or EUR 405,300. Of this, Paulig and its associated company Kjeldsberg account for EUR 81,000. The other sources of funding are Asocaes (EUR 325,900), Codocafe/AFD (EUR 170,000) and Oxfam Great Britain (EUR 40,000).

Cameroon

The project in Cameroon is aimed at strengthening the North-West Cooperative Association (NWCA), which consists of 30,000 small coffee growers. It also seeks to improve coffee quality and raise the income level of the coffee growing families.

Of the total project cost of EUR 780,000 ICP is providing 53% or EUR 410,000. Of this, Paulig and its associate company Kjeldsberg are providing EUR 82,000. The other sources of funding are GTZ (EUR 250,000) and NWCA (EUR 120,000).

In Brazil, the world's largest coffee producer, the plain terrain and even ripening of the berries mean that efficient mechanical harvesters can be used. Purchasing Director Jouko Pihkanen (right) makes regular visits to coffee farms to keep his knowledge about coffee production up-to-date.



CASE STUDY

Results in Guatemala and Honduras

The three-year projects in Guatemala and Honduras, launched by International Coffee Partners in 2001, have produced good results. Both projects will continue until the autumn of 2004.

The division of tasks in the projects has proven successful. ICP has created the conditions necessary for development, by organising training, procuring the necessary equipment, and similar work. The practical implementation has been the responsibility of local coffee producers and their families.

The project in Guatemala has invested in setting up a coffee laboratory and about ten small coffee processing mills. A new coffee drying method has also been developed in the area, and coffee quality has been improved.

In the environmentally friendly coffee processing plants the wastewater is treated in separate pools so that it is not released directly into rivers. The laboratory is used for assessing coffee quality, and it also functions as a training facility for coffee producers and green coffee buyers visiting the area.

The coffee drying tunnel is a good example of innovative coffee processing technology based on sustainable development. The drying tunnel is built on a concrete patio and resembles a greenhouse. Thanks to the plastic cover, the temperature inside reaches approximately 60°C. The sun's heat accelerates the drying process without causing any deterioration in the quality of the coffee, while the cover keeps the coffee dry in rainy areas.

One of the primary goals of the project is to improve the quality of the coffee. According to the coffee growers, the equipment and training provided by ICP have been the cornerstones of the quality improvement process.

The coffee samples tasted by Paulig representatives just over a year after the project commenced were of such high quality that Paulig decided to purchase coffee from the project area for its Guatemala brand.

As consumers are willing to pay a higher price for speciality coffees, Paulig is able to pay the coffee producers considerably more than the world market price. This has improved the standard of living of coffee producers in the area.

The total cost of the project in Guatemala is EUR 1,362,480, of which ICP accounts for EUR 787,500 (58%). Of this figure, Paulig and its associated company Kjeldsberg account for approximately EUR 157,500. Other sources of finance are ALA Project (EUR 424,500) and Actasa (EUR 150,480).

The project in Honduras began by improving the living conditions of the coffee growers and their families, and work has also been done to develop farming skills. Meetings were held with individual coffee producers to map out their needs, after which ICP procured the necessary materials. The families have done the actual renovation work, such as repairs to floors and walls, or installation of water pipes for the purpose of renovations.

The total cost of the Honduras project is EUR 784,230, of which ICP accounts for EUR 438,000 (56%). Of this, Paulig and its associated company Kjeldsberg cover approximately EUR 87,600. Other sources of finance are GTZ (EUR 199,650) and Becamo (EUR 146,580).



Coffee is a part of the Finnish way of life. Finns drink about 5 cups of coffee a day. Photo taken at Modesty Café in central Helsinki.

OTHER AREAS OF SOCIAL RESPONSIBILITY

Responsibility for surrounding areas

Gustav Paulig Ltd's facilities are situated in Vuosaari, Helsinki, in an area which is becoming more and more densely populated. The coffee roasting activity affects the everyday life of local residents.

For several years Paulig Group has been working with residents and residents' associations with regard to the planning and development of the Vuosaari area. This work has included organising several meetings to discuss issues of concern, and has formed a natural basis for continued dialogue with new people moving into the immediate vicinity of the roastery. Paulig has invited residents to visit the plant, and provides them with information about its direct environmental impacts: in addition to odours these also include noise and traffic. Any complaints received from neighbours

are processed carefully and, if necessary, action is taken immediately.

The company is the biggest employer in the area, and a significant proportion of Paulig's employees live in the eastern part of Helsinki. Pro Paulig Ltd, an associated company of Paulig Ltd, participated in the construction of a local Albatross Service Centre together with the City of Helsinki. Previously, Pro Paulig Ltd had built the Kolumbus shopping centre in order to secure commercial services in the area. In September 2002, Paulig arranged a meeting for residents of nearby buildings to discuss the operation of the roasting plant, environmental matters, and future plans. Other topics that were discussed included the transport of goods, establishment of grassed areas and communication with residents in cases of emergency.

Paulig will be active in maintaining regular contact and open communications and will expand the communications target group as new residential buildings are completed in the area.

Several years ago Paulig “adopted” the local Kallahti school. Each year classes visit the company to experience the world of work and see what Paulig does. Paulig employees also give lessons at the school.

Paulig is planning to move its production facilities away from the current location. A decision on the relocation will be made in a couple of years time.

Support for charitable causes

Gustav Paulig Ltd provides financial support for projects that are in accordance with the company’s values and related to its business.

Paulig donates the Ethiopia coffee required by Domcafé, a café operated by the Congregation of Turku Cathedral. The café’s proceeds go to support the operations of a nursing college and student dormitory set up by the Turku Archdiocese and the Finnish Evangelical Lutheran Mission in Aira, Ethiopia.

The café’s proceeds for the summer of 2001 were used to acquire solar panels to produce electricity for the nursing college, and the proceeds for summer 2002 procured teaching materials. The project has continued in the summer of 2003.

Every year, Gustav Paulig Ltd donates approximately 800 kg of Brazil coffee to the ‘Walkers’ youth cafés.

Paulig has “adopted” Kallahti school in Vuosaari, eastern Helsinki. In the foreground, Principal Tuomo Heikkilä and teacher Leena Haikarainen.



These do valuable youth work and are run by volunteers. There are around twenty of the cafés in Finland.

Paulig produces the official ‘Santa Claus coffee’ in support of the Santa Claus Foundation. Each year, the foundation donates a significant sum of money – as a present from Santa Claus – to needy children.

In 2002, the companies participating in the foundation’s activities donated EUR 25,000 to the homeless children of St. Petersburg. The foundation helped to build a shelter for the children together with the organisation Humanitarian Action. The proceeds for 2003 total EUR 17,768 and were donated to the children’s ward of the Central Hospital of Lapland, to pay for ultrasound equipment used for monitoring heart disease. Further information: www.santaclausplaza.com

For a number of years Paulig has been supporting the Finnish War Veterans Association and has supplied coffee for the Christmas parties for homeless people organised by Veikko Hursti. During the review period, Paulig also provided financial support for the Areena theatre and the Umo Jazz Orchestra.

At the beginning of 2003, Paulig supported the “Will & Skill” competition, which is aimed at young people under 30 who are interested in becoming craft workers. Paulig’s Juhla Mokka brand provides support for a competition organised by the Helsinki Association for Handicraft and Industry and targeted at craft workers in the greater Helsinki area.

In the spring of 2003, the company agreed to support the 'Stage' project at the Kiasma Museum of Contemporary Art in Helsinki. This is a forum for young performing artists. Paulig's donation will cover part of the construction and production costs.

The Paulig facilities in Vuosaari host the Epok exhibition and archive, which focus on the history of coffee and coffee roasting. This exhibition is primarily intended for Paulig's customers and business partners.

Dialogue with stakeholder groups and consumer protection

Paulig's main channels for interaction with its consumers are market research, the Paulig Customer Service, and the Internet.

The Paulig Customer Service was set up 1971 and receives around 6,000 inquiries every year. Paulig's experts answer questions every weekday by phone, letter or email. It also serves different associations and the media, organises press conferences and publishes web pages, books, brochures and instructions.

Another important contact with consumers and stakeholders is the Paulig spokesperson 'Paula'. Paulig has selected a 'Paula girl' since 1950. In addition to offering information on the products, Paula also acts as a messenger for coffee culture. The product packaging also contains plenty of useful information, such as instructions on storage, disposal of the package, and how to contact the Paulig Customer Service. The company's web site at www.paulig.fi is intended for consumers and professionals alike.

Paulig has built long-standing business relationships with its customers and maintains regular, personal contact with them. The company participates alongside its customers in trade fairs, press conferences and other events as often as possible. Customer satisfaction is monitored using several different types of research.

The Paulig Institute is a training centre for people working in the food service sector. Every year approximately 3,000 people take part in the training events it organises.

The company maintains regular contact with the media and authorities. Meetings with the authorities are often arranged to coincide with statutory supervisory activities or when new legislation is being prepared. In the latter case Paulig usually works in cooperation with the Finnish Coffee Roasters' Association.

CASE STUDY

Extensive research into the health effects of coffee

People are increasingly interested in knowing how the coffee they enjoy every day affects their health. As a result coffee is one of the most intensively studied food products.

Methods of analysis are developing fast and providing new information at a rapid rate. This has increased the need for expert, balanced information.

As a member of the Finnish Coffee Roasters' Association, Gustav Paulig Ltd is an active participant in discussion about the health effects of coffee and carefully studies the on-going research. The Association's objective is to keep consumers up-to-date on the health effects of coffee, providing them with information that is comprehensive and firmly based on scientific research.

Coffee has a very low content of nutrients or energy. One cup of black coffee contains around 6 kJ (approx. 1.5 kcal) of energy. In addition to its pleasant taste, coffee is drunk because it contains a stimulant, caffeine. One cup of filtered coffee contains approximately 100 mg of caffeine, which has been proven to boost energy levels, improve concentration and help people to cope with stress. It is recommended that people who are extremely sensitive to caffeine should use caffeine-free products.

Coffee has also been found to prevent depression and the development of gallstones, protect against cirrhosis of the liver, prevent cancer of the colon, and alleviate asthma symptoms. Recent studies have also shown that coffee is rich in antioxidants, which protect cells against damage.

The presence of acrylamides in foods was a hot topic of discussion in 2002, and research into acrylamides is still ongoing. Acrylamides have been shown to be harmful in other contexts, but it is not known how the acrylamides in food affect our health. As coffee is a roasted product, it too contains some acrylamides. Further information: www.etl.fi

Further information on the health effects of coffee: www.cosic.org



High quality Arabica accounts for almost all of Paulig's coffee purchases. Green Coffee Coordinator Marja Touri tastes the coffee to assess its quality.

OTHER AREAS OF RESPONSIBILITY

Product safety

For the food industry, product safety is one of the key elements of corporate responsibility. Gustav Paulig Ltd's strategy on product safety is in compliance with the international EFSIS standard for the food industry. The EFSIS standard guidelines emphasise the critical points of product safety and product quality.

In practice, self assessment plays a central role in ensuring the safety and quality of our products. Its purpose is to ensure the safety of the food product throughout its lifecycle up to the point when it reaches the consumer.

Factors having a bearing on safety in the Paulig production chain have been examined using HACCP

(Hazard Analysis of Critical Control Points) methodology, which allows the company to concentrate its self assessment resources on key targets and measures to prevent deviations. The company's self assessment plan is reviewed annually and updated as necessary. HACCP is carried out on each new product.

Coffee goes through about 10 different quality inspections before it reaches the consumer. Quality assurance begins in the country of origin, and each batch of green coffee receives a shipping permit only after it has been approved by Paulig's laboratory. The coffee is subjected to an arrival inspection, after which its quality is monitored during raw material storage, roasting, grinding, packing and final product storage.

The Paulig Customer Service also plays an important role in quality assurance. Complaints concerning coffee quality are immediately communicated to the company's laboratory for further examination.

Each product has a specification which includes information on its manufacture as well as all information required by law. The purpose of quality assurance is to ensure that the products comply with their specifications.

Quality-related problems are systematically dealt with by reporting all deviations. For example, any complaints received by the Paulig Customer Service are traced back to the processes, and if necessary, the company changes its procedures.

Paulig monitors its quality management with regular internal and external quality audits, and by testing its product withdrawal and traceability procedures.

Gustav Paulig Ltd's quality policy: achievements to date

EFSIS certificate since 1999. Higher level EFSIS certificate since 2000.

New training programme started for entire personnel on coffee processing, also including product safety.

The entire personnel has participated in quality training during the review period. This has covered all factors affecting product quality at all stages of the value chain. The objective is to further strengthen quality thinking so that everyone at Paulig feels that the promotion of quality is an integral part of their work.

McDonald's, a significant Paulig customer, is auditing its partner companies globally. Gustav Paulig Ltd was audited in spring 2003, and fulfilled all the principal requirements.

Quality thinking also extends to suppliers. Paulig has made bilateral quality agreements with its most important suppliers of packaging material, for example. The quality specifications covering the purchase of green coffee require that Paulig's partners are aware of the principles the company follows in its corporate social responsibility.

Gustav Paulig Ltd's quality policy: areas for improvement

Creation and certification of an ISO 14001 environmental system by the end of 2004.

Upgrading of quality reporting as part of the same process.

Integrating the existing systems to form a unified Enterprise Resource Planning system.

Improvement of self assessment system by transferring responsibility for quality from the conventional quality control function to production personnel and by training employees to take personal responsibility for quality.



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