



FROM THE BEAN TO THE CUP

Corporate social responsibility
report 2008

Paulig



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Finland's largest coffee firm

Gustav Paulig Ltd is Finland's largest coffee firm, noted for its quality brand products. In recent years the company has internationalised and expanded its business, particularly in the out-of-home market for coffee. In addition to its quality coffee products, Paulig today also supplies its customers with an expanded range of coffee equipment and related services. The company is part of the Paulig Group, which is one of Europe's leading players in the ethnic food and seasonings business. Paulig was the first company in Finland to start the industrial roasting of coffee, in 1904.

Paulig is today Europe's 10th largest manufacturer of coffee (Volcafe Holding Ltd, 2006) and the company markets its products in the Baltic countries, Russia and Ukraine as well as in Finland.

Paulig is known in Finland for its strong brands, which include Juhla Mokka and Presidentti which are 80 years old this year. In the Baltics and Russia, consumers favour Paulig Classic and Paulig President. As a pioneer in the coffee business, Paulig has actively tended its brands and boldly developed new products, services and production methods while listening to its consumers and customers. The wide range of coffees offers nuanced coffee experiences for fans of light-

and dark-roast coffee alike as well as for consumers who appreciate coffee beans and espressos.

In addition to its quality coffees, Paulig also provides its customers in retailing, the HORECA and office coffee provision sectors with all the products and services related to serving coffee: a broad range of equipment,

maintenance, design and training. The aim is to make it as easy as possible for customers to provide enjoyable coffee.

In the past financial year, Gustav Paulig Ltd had an average of 365 employees in various countries and its net sales were roughly 232 million euros. Coffee accounts for 98 per cent of net sales.

Vision and mission

We want to be the leading real coffee company and most preferred coffee partner in the addressed markets.

Paulig inspires people to enjoy real coffee.

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

Gustav Paulig, 1905





Corporate social responsibility has gradually become an integral part of our everyday activities, finding tangible expression in our new roastery scheduled for completion this year. The implementation of the roastery figures in both environmental aspects and the comfort and on-the-job safety of the employees. The change-over to the new roastery, which is

Responsibility in the midst of change

also financially important, has been planned with care so that the change will be as smooth as possible. Particular attention has been paid to training and preparing the employees.

Extending corporate responsibility to companies outside Finland gained speed when personnel procedures in different countries began to be harmonised. Personnel management and development got a boost at the end of the year when persons with experience in international companies were recruited for the Group and the Coffee Division.

Close to the consumers and coffee producers

We promote our corporate responsibility projects because a growing proportion of coffee drinkers and our customers want more information than before about the origin of coffee and the conditions in which it is produced. Data on origin is also important from the perspective of product safety and quality. We will continue to engage in active cooperation with our procurement chain so that we will know the path of our coffee from bean to cup.

The International Coffee Partners projects aimed at coffee smallholders are also continuing. To our delight, we have secured the participation of the Finnish Ministry of Foreign Affairs, whose Finnpartnership programme will support a project in Vietnam to improve the business skills of family coffee growers in Lam Dong.

A successful year in 2008

For Paulig, 2008 was a financially favourable year, which provides a good base for current and forthcoming investments. Coffee sales reached a record high of more than 45 million kilos. A new company started in Russia, OOO Paulig Coffee, will improve our business prospects in the national market. The development of PRO business, which focuses on one-stop services for coffee provision, also continued.

Most of the investments were applied to the new roastery currently under construction. We postponed the Russian roastery project because of the economic crisis, but construction can be started rapidly when we so wish.

The economic downturn will not significantly affect overall consumption of coffee in Finland, but growth in demand has come to a halt in the Baltic countries and Russia. We are adjusting operations in line with the economic situation preparing for the next upswing.

The year 2009 will be unique for us. Our old roastery will be wound down gradually by the end of the year and the first Juhla Mokka coffee will be roasted by our new roastery in summer 2009. This is a good place to start.

Pekka Pirinen
Managing Director



Coffee cherries are green before they ripen. They ripen in nine months or so, turning deep red.

Paulig and corporate social responsibility

This report covers Gustav Paulig Ltd's actions on corporate social responsibility in 2008 and the targets for 2009. The intention of the report is to give stakeholders a comprehensive and accessible view of the company's activity in the various subdivisions of corporate social responsibility. In the text, the company is also called Paulig.

In compiling this report, we have made use of the international Global Reporting Initiative (GRI) guidelines.* Corporate responsibility is treated according to the GRI's three-pillar model, the subdivisions of which are economic, social and environmental responsibility. The structure of the report progresses from coffee's countries of origin through manufacturing to the consumer, and these three divisions of responsibility therefore run side by side through the report. Comprehensive GRI tables have been put together on Paulig's website.

The GRI benchmarks most relevant to Paulig's operations have been used. Only information which already exists and can be obtained without excessive effort has been provided. Not all the information has been presented in the manner required by GRI. For example, many of the indicators for social responsibility and human rights cannot

be justified in the context of Finland. Financial indicators are given as part of the Paulig Group's annual accounts.

The information contained within this report has not been impartially verified. However, the degree of reliability can be considered to be high as the financial indicators are taken from statutory accounting records. The supply chain at Gustav Paulig in Finland is covered by certified quality and environmental systems and is subject to supervision by the authorities.

The report mostly covers Paulig's activities in Finland. The harmonisation of personnel procedures for corporate social responsibility is currently under way in the Baltic countries and Russia.

Most of the information is for the period 1 January – 31 December 2008. In a few sections, the latest information available at the time of writing this report is given. Paulig's corporate responsibility report is issued once a year.

The corporate social responsibility steering committee was comprised in 2008 of Managing Director Pekka Pirinen, Marketing Director Katri Ojalehto, Project Director Minna Forsström, HR Manager Kristiina Saarinen, Purchasing Manager Timo Allén, Communications Manager Leena Miettinen, and Management Assistant Kirsik Anttonen.

*Further information on GRI:
www.globalreporting.org



The report covers the various subdivisions of corporate social responsibility while following the coffee bean's journey from the country of origin through manufacturing to the consumer's table.

The key targets of corporate social responsibility and how they are achieved

The targets set for 2008 were attained well. The tables also show the targets set for 2009.

Targets for 2008		Attainment	
FINANCIAL RESPONSIBILITY			
Market position	To develop the Finnish coffee market and to attend to retaining the company's strong position To underpin the market position in Russia and the Baltic countries and to continue to deploy effort in distribution To expand operations in the office coffee and HORECA sector	** ** **	p. 3–4, 34 p. 4, 15, 33–34 p. 3–4, 34–35
Roastery projects	To continue the roastery project in Finland To start the construction of a roastery in Russia	** *	p. 4, 26–27, 34 p. 4, 34
SOCIAL RESPONSIBILITY			
Personnel	Total revamp of human resource management, the so-called People project Harmonisation of the Coffee Division's personnel policy also in the Baltic countries and Russia	** *	p. 4, 17–18 p. 17–18
Traceability and certifications	Improving the development of traceability verification all the way to the coffee plantation Expanding the range of UTZ Certified coffee products Launching Paulig Mundo coffee blend in the Baltic countries and Russia	* ** *	p. 4, 8, 10–11, 12 p. 4, 12, 31 p. 31
Local community	Continuing the dialogue with the neighbours about the impact of the coffee roasting process and the development of the area	**	p. 28
ENVIRONMENTAL RESPONSIBILITY			
Logistical solutions and distribution	To develop more efficient packaging solutions to advance loading To streamline distribution: to move distribution in Russia so that it is handled by Paulig	* **	p. 14–15 p. 4, 15, 33
The quantity of waste and packagings	Making the 500 g vacuum packaging laminate thinner and thus reducing the amount of household mixed waste being sent to landfills	*	p. 24
Energy consumption	Figuring energy-efficiency into the design of the new roastery An energy saving theme week for the personnel Revamping the vehicle policy to reduce carbon dioxide emissions	** ** **	p. 4, 22–23, 24, 26–27 p. 24 p. 24
Other	Studying the applicability of the ISO 22000 food safety management system Cutting the night-time low-frequency noise level of the roastery to less than 30 dBA in Vuosaari Continuing the Green Office programme and extending it to business locations outside Finland	** ** **	p. 21 p. 24 p. 24

0 target not attained

* some improvement

** target fully attained

Targets for 2009

FINANCIAL RESPONSIBILITY	
Market position	<p>The improvement of PRO operations in the out-of-home distribution channel as a seller of a coffee equipment range as well as coffee products and supplies. Building service business in accordance with ISO 9001 certification</p> <p>Updating the green coffee risk management policy</p>
Roastery projects	<p>Completing the new roastery and relocating roastery operations to Vuosaari business park</p> <p>Starting the construction of the roastery in Russia</p>
SOCIAL RESPONSIBILITY	
Personnel	<p>The improvement of personnel development and personnel management throughout the Coffee Division</p> <p>Completing the revamp of Paulig's values in Finland, the Baltic countries and Russia</p>
Traceability	Upgrading the processing of data on the origin of green coffee purchases
Local community	Communicating timetables for winding up the old roastery and the future of the building to the neighbours and Vuosaari residents
Customers	<p>Activating online customer service operations and improving methods for analysing e-feedback</p> <p>Carrying out a customer satisfaction survey</p>
ENVIRONMENTAL RESPONSIBILITY	
Logistical solutions and distribution	Implementing an ECR Sustainable Transport Road Map project for charting transport energy-efficiency and items for improvement with a partner
The quantity of waste and packagings	<p>Going over to using thinner packaging laminate in all coffee packages</p> <p>Minimising the amount of mixed waste when the old plant is demolished</p>
Energy consumption	Reducing energy consumption in coffee manufacturing by running in the new roastery and its equipment
Other	<p>Arranging training in odours and introducing sensory assessment to evaluate the odours emitted by the new roastery</p> <p>Distribution to personnel of information on efficient and environmentally friendly working methods plus communications on themes related to recycling, particularly when the relocation to the new roastery takes place</p> <p>Improving and introducing the vehicle policy in all countries</p>

Quality is the key when buying coffee

One of the ways in which Paulig supervises the actions of its partners is by regularly visiting the countries in which coffee is purchased. Many of the coffee suppliers in the countries of origin have been known to us for decades. When buying green coffee, the important points for Paulig include high quality and steady availability as well as respect for ethical considerations. Improving the traceability of coffee is a key point in this.

Paulig's coffees are carefully developed and maintained blends of raw materials imported from several countries of origin. Each product, whether it be Juhla Mokka, Paulig Mundo, Presidentti or Presidentti Gold Label, has a flavour profile of its own. Purchasing the coffee plays a crucial role in ensuring that the consumers always get precisely the flavour they want from their coffee.

Coffee is purchased direct from the countries of origin

Paulig's coffee procurement is guided by ethical purchasing principles which all trading partners have committed to. The rules are based on the guidelines of the European Coffee Federation for coffee trading partners as well as those of the International Labour Organisation (ILO) and the United Nations (UN). Procurement includes the ways in which coffee is produced in the country of origin. The goal is working methods with minimal environmental impacts combined with safe and responsibly maintained working conditions. Paulig rejects the use of child labour.

Paulig buys coffee, for example, in Brazil, Colombia, Nicaragua, Guatemala, Kenya and Ethiopia. In each country there are between three and six partners from whom Paulig has purchased coffee for some decades. Most of the coffee is purchased direct from exporting companies in the countries of origin and to some extent also from European trading houses. In 2008, Paulig bought roughly 55 million kilos of green coffee, which is the equivalent of about 0.6 per cent of the global output of green coffee.

Responsibility for the entire coffee chain

As a coffee purchaser, Paulig is aware of its responsibility for the entire coffee chain, from the countries of origin to the coffee consumer. Contact with the producer countries is direct and regular; this ensures the coffee quality, supplies in the long term, and a reasonable purchase price.

Further information about the coffee producing countries can be found on the website of the International Coffee Organisation, www.ico.org



The human factor is irreplaceable in ensuring the quality of coffee: quality is verified by sensory evaluation several times on the way from the bean to the cup. Chief Taster Marja Touri knows the subtleties of coffee flavours.





Of the varieties of coffee, Arabica grows at altitudes of 1000–2000 metres and Robusta 100–700 metres above sea level. High altitude gives the beans extra flavour.

Purchasing green coffee and the global green coffee market

In terms of value, green coffee is the world's second most traded raw commodity in world trade, coming immediately after oil. According to the ICO, the global output in the harvest season 2007–2008 was roughly 7 110 000 tonnes, which is 118.5 million 60 kg sacks of coffee.

The price of green coffee can fluctuate dynamically. The reasons for this include the balance of supply and demand, harvest forecasts, weather and variations in rainfall. The behaviour of other commodity markets and the movements of capital invested in them have made it very challenging to estimate the price of green coffee as well. The unpredictable nature of the green coffee and currency markets demands careful and disciplined risk management.

Managing the quality and price of coffee is a major challenge when there are rapid fluctuations on the market or in the availability. In addition to the market risks, a challenge in the future may be the impacts of climate change on green coffee production and the quality of the green coffee produced.

Paulig ensures the supply of quality green coffee by purchasing coffee in different countries and at different times for storage. Except for country-of-origin coffees, Paulig's coffee products are blends of green coffees procured from a variety of sources.

Coffea arabica and Coffea canephora

Coffee is cultivated in more than 60 countries around the world. More than 20 million coffee growers earn their living from coffee. The coffee trade is also of great importance both economically and socially, particularly in many developing countries.

The commercially significant coffee varieties are Arabica (*Coffea arabica*) and Robusta (*Coffea canephora*).

The more strongly flavoured Robusta is suitable for dark roast coffee blends such as espresso. Arabica, which has a more nuanced flavour, accounts for 65 per cent of the world's coffee output, and Robusta for roughly 35 per cent.

Paulig mostly purchases Arabica coffee, the global price level of which is determinated at the New York coffee exchange. Only a small proportion

is Robusta coffee, the price of which is set by the London coffee exchange.

Traceability benefits the entire coffee chain

Traceability is a part of risk and quality management. The better you can trace the origin of coffee, the easier it is to manage and oversee the delivery and production chain and to solve any problems that arise in it.

Traceability throughout the coffee chain is still quite a challenge, but it is Paulig's aim to step up the traceability of the coffee it buys.

The countries of origin differ in terms of traceability, and as yet there are no established procedures for traceability management. It is Paulig's aim to increase sellers' awareness of the advantages of traceability. Traceability is a competitive advantage for coffee exporters, as consumers in Finland and many other countries are increasingly interested in the origin of coffee and how social, financial and environmental responsibility is taken into account in the various stages of the coffee chain.

CASE: Coffee traceability making progress in Brazil

Paulig's Purchasing Director appointed in the beginning of 2009, Katariina Aho, returned in summer 2008 from a year-long posting in Brazil, where she learned about the coffee trade from the plantation onwards. Her employer was Paulig's long-term partner Stockler Comercial e Exportadora Ltda, a subsidiary of the world's biggest green coffee sales firm Neumann Group. During her year abroad and after, she has intensely studied ways in which the traceability of green coffee can be improved.

In Brazil, Katariina introduced her partners to Paulig's new quality and procedural guidelines. The functionality of the guidelines is reviewed at fixed intervals, and on the basis of experience it is intended to extend its application to other countries of origin as well.

"Towards the end of 2008, we also drew up a monitoring form to chart the traceability of coffee as precisely as possible. In 2009, we will carry out test purchases using it. We believe that data collected at the purchasing stage can be used to replace the present traceability surveys based on spot checks made after the event. The goal is for the partners in the coffee chain to be as clear as possible in the purchasing stage, or at least no later than by the time the coffee is shipped," Katariina explains.

Coffee traceability is challenging, because in a big country like Brazil coffee is purchased through cooperatives, brokers or growers. Informa-



Katariina thinks her visits to the countries of origin and meetings with business partners are important to forge understanding on both sides. "We taste coffee together to make sure we have the same ideas about the quality."

tion on the origin of the coffee often goes no further than the cooperatives for reasons of competition. If the coffee comes from brokers, the origin is not always known at all.

"To underline the importance of

this matter, we made a test purchase from a new partner who was able to prove traceability to the plantation smoothly in the purchasing stage. We will increase the proportion of such purchases, no doubt," Katariina says.

Certified for responsibility



The UTZ CERTIFIED programme encourages growers to engage in professional cultivation, to use sustainable production methods and to take care of work safety, health care and children's schooling, among other things.

One way to ensure the origin of coffee and to support sustainable development is to use coffees with responsibility certification. Certified coffees account for roughly 1.5 per cent of global output. The biggest challenge is the availability of in-demand, quality coffee. Paulig uses green coffee approved by UTZ CERTIFIED for its responsibility certified coffees.

UTZ CERTIFIED is a global, nonaligned and independently monitored coffee certification programme which

ensures and verifies the responsible production of coffee. Rapidly growing UTZ CERTIFIED is already in use in the United States and several European countries. It gives consumers a chance to be sure of the origin of coffee, as certified coffee can be traced all the way back to a single plantation.

UTZ CERTIFIED has a balanced focus on three aspects of sustainable development - environmental, social and financial factors - and it stresses the improvement of coffee growers' skills. Its strict regulations require plantations must have their cultivation skills, workers' safety, living conditions, children's school attendance, water and soil conservation, and other factors in good order.

Use of certified coffees on the increase

Responsibility certified coffee accounts for roughly 2.8 per cent of Paulig's coffee purchases. Paulig's range already has three UTZ CERTIFIED products – Paulig Mundo, Paulig Espresso Originale, and since autumn 2008, Brazil blend.

Certified green coffee is grown on both small and large plantations and in all the production regions in which Paulig procures its green coffee. In this way we achieve sufficiently large amounts of green coffee and we can assure the high quality of the coffee blends and their suitability to the Finnish taste.

Further information: www.paulig.com and www.utzcertified.org

CASE: Finnpartnership backs an ICP project in Vietnam



ICP's practical projects offer small growers a chance to improve their skills and income on a sustainable basis.

Paulig is a partner in ICP, the International Coffee Partners company. This non-profit joint venture of five European family-owned companies in the coffee business carries out long-term development projects lasting for three or four years in coffee countries of origin in cooperation with other aid organisations.

The well-received and highly practical projects help smallholders to improve their families' income and living conditions. Growers are guided, for example, in ways to use sustainable cultivation methods, to organise, and to open up new marketing and distribution channels.

During 2008, projects were under way in eight countries: Cam-

eroon, Peru, Uganda, Colombia, Tanzania, Honduras, El Salvador and Vietnam. During the period covered by this report, Paulig's share of the financing for ICP projects was roughly 170 000 euros.

In autumn 2008, Finland participated in the financing for an ICP project for the first time when the Finnpartnership programme of the Ministry of Foreign Affairs joined in a project to be carried out in Vietnam. The project will reach 400 growers of Robusta coffee, members of ethnic minorities in the Lam Dong region.

"Vietnam is the second biggest coffee producer country in the world, so it's important that know-how in methods of cultivating quality coffee

spreads there. The Finnpartnership programme has financed the drafting of the ICP's project and business plan as well as the development of training," says the leader of the programme, Siv Ahlberg.

Paulig's Purchasing Manager Timo Allén visited ICP project plantations in Lam Dong in November 2008.

"So far, the coffee produced on the ICP plantations has only been available in limited quantities. We are committed to buying coffee from ICP project sites. A requirement for this is that the coffee produced must meet our quality criteria," Timo says.

*Further information:
www.coffee-partners.org*



Coffee goes by sea

Shipping is the most efficient way to transport green coffee. The transport emissions and energy consumption per unit shipped have declined because container ships have got larger. Larger vessels can carry more than 10 000 20-foot shipping containers. When Vuosaari harbour was opened in the end of November 2008, it also boosted the efficiency of Paulig's coffee transport.

Of the green coffee shipped to Paulig, nearly 90 per cent is transported in bulk containers. Inside these the coffee is packed in a single large nylon sack which can hold roughly 21 tonnes of coffee. The remainder, over 10 per cent of the coffee, comes to Vuosaari in 60 kilo jute sacks.

Container vessels sailing from the countries of origin go first to continental Europe, mostly Hamburg and Antwerp. At its fastest, coffee gets to Vuosaari harbour from Brazil in about 21 days, although it can take as much as two months.

The opening of the new Vuosaari harbour near the end of 2008 also shortened the distance Paulig's green coffee shipments need to be transported. When the new production plant is completed, green coffee can be taken straight from the harbour to the new roastery. This will mean about 2 600 containers of coffee less in Helsinki's traffic. The reduction in road transport will also cut the risk of accidents.

Warehouseman Pekka Hiltunen from DFDS Transport Solutions Oy verifies that coffee is stored efficiently and securely.

"Critical assessment work and listing items for improvement keep us up to speed in developing logistics," says Logistics Director Ronny Reijonen.

Paulig sends coffee direct to Moscow

The journey of coffee products to Russia became shorter in March 2008 when Paulig started a subsidiary in Russia, OOO Paulig Coffee, and re-routed the transport of coffee direct from Vuosaari to Moscow. Coffee had previously been sent first from Helsinki to Tallinn, where coffee going to Russia and the Baltic countries was warehoused. The new distribution model makes it possible to transport full loads, which helped to reduce shipments and handling.

ECR Sustainable Transport Road Map project assesses logistics

Paulig chooses responsibly operating companies as its partners for transport. In 2008, Paulig checked out its new partners' business principles in respect of the environment and quality systems and carried out audits on its regular partners. In Paulig's experience, the partners who are most efficient in their business are also the best at respecting environmental considerations.

In 2009, Paulig will carry out a pilot ECR Sustainable Transport Road Map project together with one of its transport partners. The aim of the project is to examine transport and to detect items for improvement in various forms of transport, loads, the use of load space, fuel transport, training and projects as well as in communication exchange. A development plan is being drawn up on the basis of an analysis of the current situation.

*Further information on the project:
www.ecrnet.org*



CASE: The many advantages of EUR pallets: reduced transport emissions and risks

Paulig seeks to use methods and equipment that cause the minimum of impact on the environment. This is possible if transport, packaging and operating methods are made more efficient. In logistics, respect for the environment and efficiency often go hand in hand.

A good example of this is a change in the transport pallets used for products. During 2008, Paulig went over exclusively to using EUR pallets, the standardised European model, the dimensions of which are

80 x 120 cm. The previously used FIN pallet (120 x 100 cm) is in decline in Finland.

"The half EUR pallet means more efficient use of space in warehouses as we can load one more layer of coffee packages on the pallet than at present. On the annual level, transports from the roastery to retail outlets have declined by eight per cent or about 70 full loads. This cuts down on both traffic emissions and safety risks on the road," says Logistics Director Ronny Reijonen.

Green coffee arriving at Paulig	2006	2007	2008
Sack containers	8.9%	14.3%	14%
Bulk containers	91.1%	85.7%	86%



Paulig's operations will relocate to the new roastery in late summer 2009. Machine fitter Harri Natunen and packaging machine operator Marja Leena Launonen were happy with the KAMU training.

The skills and thrills of work

Paulig's famed brands are made by coffee professionals. The company values professional skill and it devotes effort to job enjoyment. The relocation to the new roastery and the expansion of business activities left their mark on the year 2008. Particularly close attention has been paid to the change-management and employees' working wellbeing.

The new roastery and the expansion of business activities meant challenges in 2008. The personnel will move into the new roastery in the late summer of 2009: manufacturing personnel will relocate to the roastery in stages during the summer and autumn. The introduction of new equipment, technologies and systems has been planned with care.

Towards the end of the year a practical programme for training for the change was launched under the name of KAMU, a Finnish acronym for "all join in". The purpose was to support supervisors and manufacturing personnel during the changeover.

The tutor training programme for manufacturing personnel was continued. The purpose of this training is to increase understanding of each person's own work in various processes and to exchange so-called tacit knowledge. Training on environmental matters and waste sorting was arranged for the staff in cooperation with trainers from Lassila & Tikanoja.

In this, the employees were advised on recycling and sorting various types of waste. The entire manufacturing staff also underwent hygiene pass-book training, the purpose of which was to increase know-how of matters related to hygiene and the food industry in everyday work.

Paulig provides support for additional training for individual employees when necessary, such as further studies. The personnel has an opportunity to attend language courses etc.

Personnel survey

In 2008 Paulig carried out a personnel survey which also included the Baltic countries and Russia. The survey is part of the People project which began in 2007, the aim of which is to harmonise different work cultures and to create common ground rules for human resources while complying with local

customs. Information gained on the personnel survey is helpful in this.

According to the results from the survey in Finland, Paulig employees have faith in the company management and the future, and they feel that operations are efficient. On the basis of the responses, the company appreciates and takes care of the personnel and provides them with opportunities to progress. The framework for working is fairly good, and collaboration between units also runs fairly well.

There is also room for improvement: Paulig employees feel that openness is the least successfully implemented of the corporate values. Also, there were wishes for improvements in personnel management and in in-house collaboration between units. Some of the personnel also had expectations in respect of the quality of the development discussions.

Employment at Paulig, 2008

- The average length of service was 13 years.
- The number of personnel increased by 64 when Paulig Pro Finland Oy was transferred to Gustav Paulig by means of a business acquisition. Owing to a reorganisation of functions, employment of seven persons ended.
- The number of white-collar employees 171 (68%) with 68 blue-collar (32%) staff. In all, there were 228 employees on a permanent employment contract.
- 6 employees took retirement.
- The average age of the personnel was 42 years.
- In addition to Paulig's in-house staff, there were also employees of external service providers working at the Vuosaari offices: nearly 20 professionals were in charge of things like the staff restaurant, security guarding and warehouse services.



Machinist Pertti Mattila has worked for Paulig for 21 years.

The results in the Baltic countries and Russia

In the Baltic countries faith in the company's future is strong. The personnel feel that they are being offered efficient working conditions and that the targets are clear. In-house communications between units is also adequate. The challenges which emerged are related to the limited opportunities for career rotation in the Baltic countries as well as a lack of interaction between supervisors and subordinates.

In Russia, Paulig's corporate image and faith in the company's future are also highly rated: the personnel feel they are able to have a strong say in their work and that cooperation between supervisors and subordinates is fluent. The challenges concern the limited prospects for advancement within the company. Supervisors would also like more feedback on their work.

Paulig's general personnel policy is applied in the Baltic countries and Russia. Perks are similar in the Baltic countries and Russia to those available in Finland, although allowing for national customs. Statutory aspects of employment are handled in compliance with local labour law.

Wellbeing on the job even in times of change

In Finland, Paulig has an in-house occupational health centre with an occupational health nurse and a part-time doctor. Occupational health care takes action to promote and support the personnel's wellbeing as well as a healthy and safe working environment. The cornerstone to maintaining health and working capacity is early detection of the risks and loading fac-

tors of work and the working environment. In addition to preventive care, specialist-level healthcare is available to the personnel.

In 2008, the relocation to the new roastery was also factored into occupational health care, and there were discussions about such matters as stress management. Since the new roastery is smoke-free, Paulig employees have been offered support to give up smoking and an opportunity for lung screening. Eye tests were carried out on staff working with monitors. Also arranged in 2008 were a lecture on brain fitness and theme weeks on healthy eating.

Occupational safety: taking the long view

Paulig's industrial safety committee draws up action programmes and action plans for industrial safety. In 2008, the industrial safety committee tackled the occupational safety issues of the new roastery. For example, the new roastery will have more automated machinery and ergonomics, and other factors affecting work will improve.

Long-term work on improving industrial safety has yielded substantial results. According to statistics by the Confederation of Finnish Industries, Paulig's absentee rate due to illness and accidents is distinctly lower than the average for the sector: Paulig employees' absence rate due to illness in 2008 was 2.2 per cent and that of accidents was 0.2 per cent. Automation has reduced the amount of risk-prone repetitive jobs, and work-related strain conditions and occupational diseases have been almost completely eliminated.

In 2008 there were three work-related accidents. These are not typical of Paulig; accidents have been isolated cases, involving slipping, for example.

Multilevel activity supports fitness

Paulig has broad-based club activities sponsored by the company. The company's twenty or so clubs have a great variety of activities, ranging from exercise groups to gourmet cooking. The purpose of club sponsorship is to maintain and improve the personnel's physical and psychological wellbeing as well as to encourage the staff to engage in shared interests.

Family events are held regularly. Every year, Paulig employees' families get together at the winter and summer events arranged by the company. Employees may also rent leisure cottages.

Paulig also uses other means to help employees achieve a work-life balance. In case of a sick child, an employee can get a childminder to come to their home, paid for by Paulig.

An attractive employer for the young

Paulig's favourable image as an employer has further improved in the eyes of young people. A survey carried out by the consulting firm Universum in autumn 2008, the sixth of its kind, studied the future career aims of young professionals and students. Paulig went up from 26th to 20th place on the list of Finland's most sought-after employers.

Traditionally, high places on the list have been won by Finnish companies with products or services attractive to young people. The internet-based survey included about 7 000 students, mostly students of commerce and technology. Voting was influenced by factors such as the company's prestige and reputation as well as responsible business principles.



Occupational health nurse Ulla-Maija Pesso understands the importance of preventive work. She advises Paulig employees on many subjects, from nutrition to ergonomics and exercise.



Technical planner Lauri Hackman observes information from a coffee product scanner. The scanner makes it possible to find foreign matter in coffee packages on the conveyor.

High-quality, safe products

In 2008, Paulig adopted an ISO 22000 standard compliant food safety management system and streamlined its self-assessment plan. Sensory evaluation of coffee plays an important role in quality control.

Paulig has earlier developed product safety in line with the food safety standard produced by the BRC (British Retail Consortium). The current system, which complies with the ISO 22000 standard, will also be used in the new roastery. The functioning and efficiency of the quality management system is verified regularly with external and in-house audits.

An important part of Paulig's quality control is self-assessment, which embraces all stages of processing from procurement of green coffee to the completed final product.

Getting a taste for coffee quality

Paulig checks samples of a batch of coffee before the decision to purchase is made, when it is loaded on the ship, and after the shipment arrives in Finland. All the green coffee samples are analysed carefully by Paulig's in-house laboratory. Among the things the samples are screened for are moisture content and the bean size distribution. Every sample is also roasted, so

that Paulig's experienced professional tasters can ensure the quality by sensory evaluation. Sensory evaluation is an important part of self-assessment for coffee. A tasting team consisting of several Paulig employees ensures the appearance, aroma and flavour of coffee at many points along the production chain from bean to cup.

New scanner increases product safety

In 2008, Paulig purchased a scanning instrument for one whole-bean packaging line. This will make it possible to detect extraneous matter inside coffee packages on the conveyor belt. When the scanner detects extraneous matter in a package, it redirects the faulty product to a box for rejected coffee packages. The rejects are sorted into organic waste and packaging materials for recycling.

Number of complaints unchanged from the previous year

Paulig's consumer service keeps a close watch on the number of flaws in quality and complaints, and it answers questions from consumers. In the course of 2008, the number of complaints concerning technical issues, such as leaking vacuum packs or complaints over taste, increased slightly – from 14 to 15 per million kilos produced. On the other hand, complaints over foreign objects declined to 2.1 per million kilos produced (2007: 2.4).



Environment respected in coffee roasting

Paulig pays attention to the environmental impacts of manufacturing coffee. Indications of this are efficient energy consumption, reductions in carbon dioxide emissions and waste quantities, and promotion of recycling. The environmental management of Paulig's roastery is based on the international ISO 14001 standard.

In 2008, Paulig produced more than 45 000 tonnes of coffee at the Vuosaari roastery. Coffee output was up

slightly on the previous year. Since 2004, annual output has exceeded 40 000 tonnes.

Energy consumption and water

Paulig's coffee roastery uses natural gas as the energy source for roasting. The main atmospheric emission is carbon dioxide, which is formed when natural gas is burned as well as being emitted from the roasted coffee itself. The other atmospheric emissions are small in quantity. Carbon dioxide emissions increase as the quantity of production rises.

Paulig has sought to influence the specific emissions (the quantity

of emissions per tonne of product) through production control and by keeping the equipment well serviced.

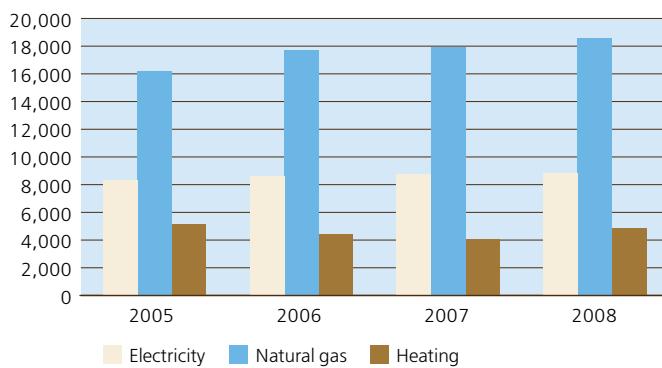
Monthly consumption of natural gas per tonne of product levelled out in late 2008. In annual terms, consumption was on a par with the previous year.

There was no significant change in consumption of electricity, but consumption has declined slightly since 2005.

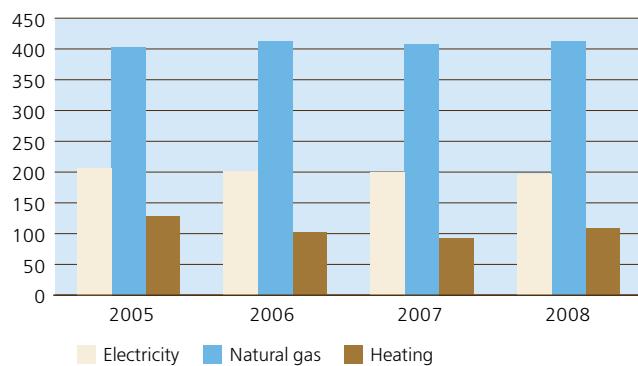
In 2008, energy consumption was practically unchanged since 2007. Water consumption was on a par with previous years.



Energy consumption per calendar year (MWh)



Energy consumption per calendar year per tonne of production (kWh/t)



Quantity of waste

It is Paulig's principle to produce the smallest possible amount of non-recyclable waste.

In 2008, total quantity of waste was 755 tonnes. The total quantity of

waste declined on the previous year's figure by a few tonnes.

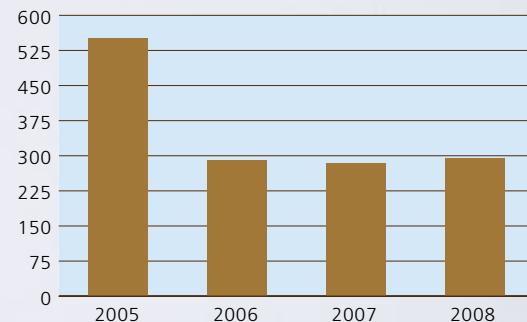
As in the previous year, the amount of organic waste declined substantially, as chaff from roasting is formed into briquettes to be used as a

fuel. The amount of packaging waste for retail and industrial purposes per tonne of production rose slightly.

Emissions (tonnes)

	Dust	Hydro-carbons	Carbon monoxide	Carbon dioxide	Sulphur dioxide
2005	1.3	25	125	6493	0.02
2006	1.4	28	140	7278	0.03
2007	1.4	29	144	7444	0.03
2008	1.5	30	147	7619	0.03

Water consumption per calendar year per tonne of production (litres/tonne of coffee produced)

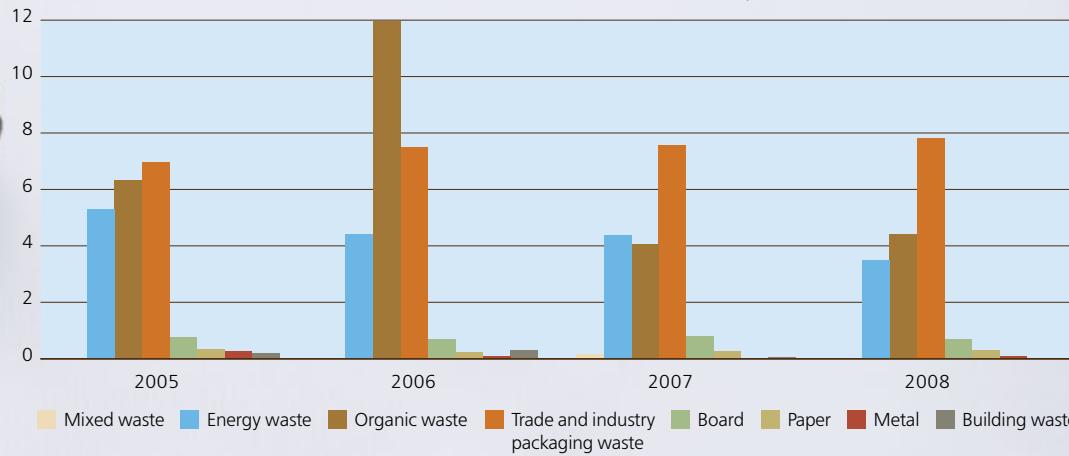


Quantity of waste per calendar year (tonnes)

	Energy waste	Trade and industry packaging waste	Organic waste	Mixed waste	Board	Paper	Metal	WEEE*	Building waste	Hazardous waste
2005	213.20	281.20	255.06	0.70	31.04	13.40	11.00	0.61	8.50	3.55
2006	190.80	322.70	514.80	0.00	29.50	9.60	3.50	0.85	12.60	4.44
2007	193.30	333.20	178.40	6.60	35.20	11.10	0.00	0.00	2.10	0.00
2008	157.00	353.30	196.90	1.20	30.30	11.80	5.74	0.44	2.00	0.61

* Waste from electric and electronic equipment

Quantity of waste per calendar year per tonne of production (kilos/tonne of coffee produced)





Development work on packaging material continues

The most important function of the coffee package is to protect the product against spoiling and to ensure that it is ultimately used. Paulig's biggest-selling coffees, Presidentti and Juhla Mokka, are mostly packed in 500 g laminated packages. The laminated packaging accounts for a small proportion of the product's total environment cost, roughly five per cent, excluding the disposal of the package.

Paulig actively researches the environmental impacts of packaging: there was a goal during the year covered by this report to reduce the thickness of the laminate in the 500 g coffee package and thus to reduce the amount of waste sent from homes to landfills.

This was brought to completion for the Brazil blend and partially in respect of Juhla Mokka and Presidentti coffee packages. It is a target for 2009 to go over to thinner packaging laminate in all coffee packages. However, the packaging must not be made too thin, as it has to stand up to handling from the roastery to the consumer.



Practical work for the environment

Paulig has been part of the WWF's Green Office programme since 2005. The aim of the programme is to reduce the environmental impacts caused by office work by increasing employees' awareness of ecologically acceptable consumption and by encouraging them to take environmentally friendly action.

The company continued to implement the programme in Finland during the year covered by the report. Specific Green Office guidelines were also drawn up for the units in the Baltic countries and Russia.

A number of practical actions for the environment were made: news-flashes were arranged at the Vuosaari roastery to reduce the consumption of paper. To reduce electricity consumption, employees were instructed among other things to switch off office machinery at the end of the working day and at weekends. An Energy Saving Week was also held. Improvements were made in recycling: mixed waste is no longer generated in the staff restaurant as all the waste left by people eating there is organic.

The Green Office programme will also continue in the new roastery.
www.wwf.fi/green_office/

Carbon dioxide emission limits for vehicles

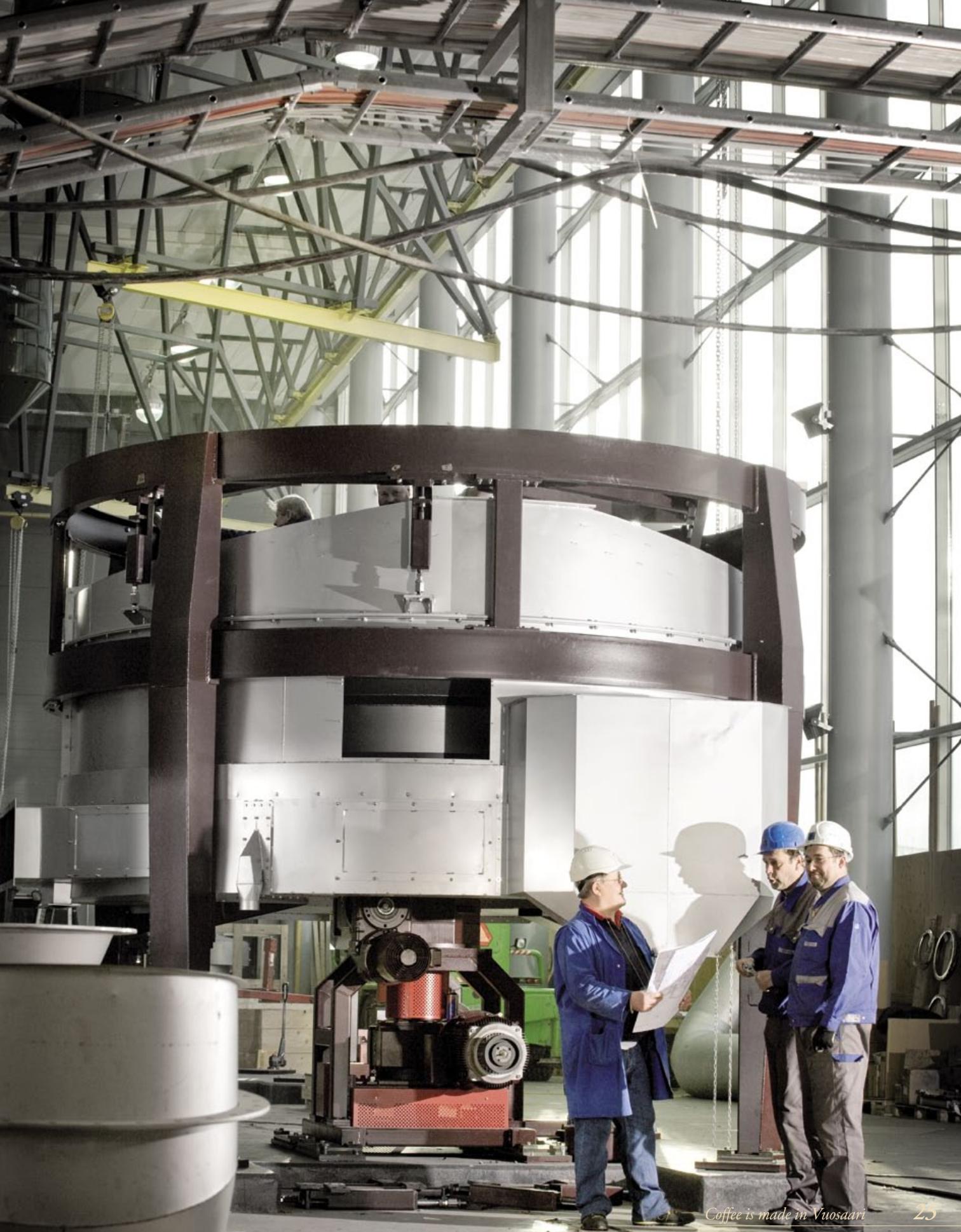
Changes promoting environmental friendliness were made in the Paulig Group's vehicle policy at the end of 2008. The carbon dioxide emission limit for company cars is now less than 196 g/km. Also, leased diesel cars and those owned by the Group will have to be fitted with particle filters in the future.

Eliminating noise and smells

The target to reduce low-frequency noise levels at night below 30 decibels was achieved. The daytime noise levels outside the roastery continued to be below 55 dBA, which is in compliance with the environmental permit. During the period covered by the report, not a single complaint about noise came in. There were two complaints about the odour of coffee. During the previous year, not a single complaint had come from the residents.

The new roastery is close to Vuosaari harbour and far from inhabited areas. The new plant received an environmental permit. The environmental permit specifies the conditions and limits, for example for the noise generated by the plant. The permit has a requirement for self-assessment of odours which was not set for the present roastery, meaning Paulig will carry out its own assessment of the odours generated by the coffee roastery by sensory evaluation at regular intervals.

One of the ways environmental issues have been taken into account in the new roastery is the energy-efficient roasters. Norbert Raschke, Heiko Schneemann and Stefan Kniffka (Probat Werke GmbH) install a roasting drum.



An energy-efficient new roastery



"In the roastery approaching completion in the Vuosaari harbour business park, environmental aspects have been respected throughout the design and construction, from the interior fittings to the outer walls of the roastery," says Project Director Minna Forsström.

The construction of the new roastery in Vuosaari has moved ahead on schedule. The roastery has been built throughout for energy-efficiency: the building's heating system is also an example of state-of-the-art, energy-efficient technology. The use of

new technologies creates a framework for enhanced product supervision and it reduces the environmental impact of roasting coffee. The new and old roasteries will be in operation at the same time for a few months in the early autumn 2009.

The building materials for the new roastery were selected for durability and easy maintenance, including steel, glass and aluminium. The material chosen for the building's cladding is ecologically friendly COR-TEN, an alloy containing a small amount of precious metals which was patented in the 1930s. COR-TEN rusts in time to a violet-brown hue. It is a fully recyclable material with a highly durable surface. It is long-lasting in service and its environmental impact is small as it needs no special finishing treatment, paint or corrosion-protection.

State-of-the-art technology for the heating system

The new roastery's packaging room, grinding areas and warehouses are heated from the ceiling down. The ceiling is fitted with radiant panels which heat space 5–10 per cent more energy-efficiently than the traditional technique of blowing heated air.

Panels installed on the ceiling radiate heat downwards from above. The radiant energy is only converted into heat when it hits a surface or obstacle. There is no unnecessary air heating or energy wastage, as surfaces are heated instead of air. The energy-efficient heating system also targets heat precisely to places where people are working – the lower surfaces, thus also reducing draughts and dust.

New technology fosters safety and reduces the problems of roasting

The new roastery's product safety is of exceptionally high quality. Quality coffee is assured by the coffee laboratory and the main manufacturing

control room, both of which are located in the same facility. Information is passed from one worker to the next rapidly. The Best Bean project which started in 2005 led to the manufacturing self-monitoring programme, as a result of which the workers in the coffee manufacturing process keep watch over the quality of the products at their own workstations.

Before the production of coffee is started in the new roastery, the roastery conveyor lines will be cleaned. Careful and detailed plans have been made for safety, traceability and potential recalls as well as crisis situations.

Logistics planned with care

Paulig's new roastery is in a superb logistical location next to Helsinki's new harbour and close to the main transport routes. Green coffee will come straight from the port to the roastery and the final products will go out via the main transport routes to the customers. One of the ways the roastery area itself has been made safe was to separate passenger and goods transport from each other.

The start-up of the new roastery and the gradual relocation of manufacturing from the old roastery by the end of 2009 is a logically challenging mission. The relocation has been planned with care. A precise transport plan has been made for the machinery arriving at the new roastery and for the transfer of equipment. Also, the efficient transfer of green coffee containers from the harbour to the roastery, the functions of the new logistics centre and warehouse, and the transport of the end products to the customer have been worked on in logistical projects.



"Practically every coffee package completed at Paulig's new roastery will pass through the system we've supplied and be handled by our Kawasaki robots," say Orfer's chairman of the Board of Directors Paul Stucki and Jukka Kettunen. Photo: Stina Ikonen

CASE: An innovative partnership creates something new

The Orimattila-based Orfer Oy, a supplier of robotised palletising and packaging systems for the food industry, is playing a major role in Paulig's new roastery project. The company is providing a total solution for the Vuosaari new plant's palletisation room and new palletising robots, a conversion of the old palletising robots, their removal from the old plant, and a conveyor system more than a kilometre in length.

"The importance of maintenance and supporting services has steadily grown in importance, particularly on large projects. We keep our promises to our customers and we have the will and the ability to solve our customers' challenges," says Orfer's Marketing Director Jukka Kettunen.

"For us it's important that capable and professional support for the robot automation systems is available locally," says the roastery Project Director Minna Forsström.

The contract with Paulig will lead to Orfer reinforcing its organisation in 2009 by 5–8 employees.

The goal is a happy consumer

Paulig is constantly in touch with consumers, the customers in retailing, the office coffee service and HORECA sectors, through customer feedback, the internet, market surveys and other means.

Paulig has a number of important stakeholders, and collaboration with them is intense. Good care is taken of in-house personnel. Contact is also regular between the company's sister corporations, associated companies and subsidiaries. There is a long tradition of collaboration between green coffee suppliers and Paulig.

Serving the consumer through the consumer service function, an electronic customer feedback channel and market research are examples of an active dialogue with consumers, as is Paula. The company is in cooperation with its key customers such as the central wholesalers, retail chains, independent retail outlets, and other

out-of-home customers. These latter customers include cafés and restaurants. A major customer group is the public sector: Paulig coffee is enjoyed in homes for the elderly, hospitals and military canteens. Workplaces are also important customers.

Customer service is improving

Consumer service is part of Paulig's quality control: the guiding light of the section is fast, high-quality, professional and friendly service. In 2008, consumer service received an estimated 6,000 communications about coffee. All communications are logged and they are answered in person. Suspected quality flaws in coffee are investigated with laboratory testing.

Paulig's consumer service studies customer feedback in detail and improves its work on the basis of this. In 2009, the target is to develop consumer service and interaction with the consumers by using more actively the internet, where it is quick and easy to give feedback and to ask questions

about products. At the moment, most feedback comes by phone and mail.

A part of the community

Paulig's roastery is a familiar landmark for many people in Vuosaari. In addition to its active work in developing the district, the company is a major employer in the area, and a large proportion of the company's employees live in eastern Helsinki.

The local residents and media representatives are interested in the new roastery approaching completion in the Vuosaari harbour precinct. Information on the construction of the new roastery is available not only on the company's website but also from the media, whose representatives have visited the new roastery in the various stages of its construction.

The building of the new roastery involved a great deal of cooperation with the authorities in 2008. Cooperation is particularly active with different players in the construction sector, such as owners and financial backers.

An enjoyable coffee moment is a luxury for every day and for special occasions. According to surveys commissioned by Paulig, Finns like to drink coffee while visiting homes and they consider coffee breaks at work important.

The Paulig Institute trains professionals

The Paulig Institute provides HORECA professionals with expert coffee training and education in the use of equipment for which Paulig is an agent. The main thrust of the training is on making quality coffee and familiarisation with the way the coffee chain works, from bean to cup. In 2008, the Paulig Institute arranged coffee training sessions which were attended by 2 000 people. Courses can also be taken on the internet.



Many forms of sponsorship

Paulig sponsors good causes in Finland and other parts of the world. In 2008, the company employed members of the Vantaa disabled people's association on marketing campaign subcontracts through Employment Centre Visu.

www.kolumbus.fi/vantaaninvalidit/

Sponsorship of the Walkers café chain for young people, which performs youth work with voluntary labour, has continued since 1999. During the year covered by the report Paulig donated roughly 650 kilos of coffee to the cafés and paid for new jackets for the volunteer workers. Walkers' café staff also attend Paulig training sessions.

www.asemanlapset.fi

Since 2001, Paulig has supported the Dom-café mission café of the congregation of Turku cathedral with donations of coffee. The profits from the café, which is open in the summer, are donated to a church-maintained hospital in the Ethiopian city of Aira which also serves as a nursing school and student housing.

www.turunsrk.fi

Paulig has for years supplied coffee for the Christmas parties for the homeless originally organised by the late Veikko Hursti. Paulig also assists its sponsorship school, Kallahti Comprehensive.

www.kalla.edu.hel.fi

At Christmas 2008, Paulig donated 15 000 euros to support the work of UNICEF.

www.unicef.fi

Paulig is a partner in ICP, the non-profit company International Coffee Partners GmbH, together with four other European coffee firms. ICP carries out projects to improve the income and living standards of coffee smallholders in various countries of origin. Paulig's share of the costs last year was about 170 000 euros.

www.coffee-partners.org



The K-Team Days are the retail industry's biggest event for showcasing new products. At the event held in 2008, Paulig served more than 6,000 cups of coffee. Key Account Manager Jyrki Mulari and Anni Tarhonen met Paulig customers and retail personnel at the K-Team Days.



Strong brands are the cornerstone of success

Paulig is famed in Finland as a coffee firm of high quality and with long traditions. The company's best-known brands Juhla Mokka and Presidentti are 80 years old in 2009. The wide range of coffees offers enjoyable flavours to fans of both light- and dark-roast filter coffees, bean coffees and espressos.

Paulig has built up its corporate image and its brands in the long term and systematically, without compromising on quality. According to consumer polls (Brandflow, IRO Research, 4/2008 and 10/2008) Finland's best-known coffee brands are Juhla Mokka and Presidentti. The same duo placed 14th and 15th in a poll by Taloustutkimus of Finland's most valued brands. Paulig is Finland's 20th most valued brand*.

In order to be a winner, the company constantly watches and anticipates the business sector, technological advances and changes in the customers' consumption habits. Systematic brand-building requires broad understanding, the ability to reinvent, and responsible business.

* Source: Survey of brand valuation 2008, Taloustutkimus Oy and M&M magazine.

Flavour treats on offer

Paulig is aware of its responsibility as a creator of coffee experiences and as an expert in coffee trends. Finland's leading coffee firm actively studies changes in consumer behaviour and habits as well as coffee trends and other factors.

Paulig's broad product range embraces both traditional light-roast and darker-roast filter coffees, espresso products, and very dark-roast, French-style coffee. The range also includes coffees roasted with beans from a single country of origin and UTZ CERTIFIED coffees.

Paulig's brands are:

Juhla Mokka

Presidentti

Presidentti Tumma Paahko

Presidentti Gold Label

Parisien

Espresso products

Country of origin coffees in the Paulig Speciality Coffee product family:

Ethiopia

Kenya

Guatemala

Colombia organic

The UTZ Certified coffees are:

Paulig Mundo

Paulig Espresso Originale

Brazil

Paulig's brands also include:

Frezza ready-to-drink milky coffee

Tazza hot chocolate.



Did you know...

- The Finns are the world's most enthusiastic coffee drinkers, as we drink about five cups per person per day.
- Most coffee drinkers have coffee at home every day (82 per cent of respondents).
- Of the coffee drinkers who are employed, 71 per cent have coffee at their workplace every day. About three cups of coffee per day are drunk at work.
- 9 per cent of coffee drinkers have coffee daily in a café or restaurant.
- 96 per cent of the respondents prefer filter coffee.
- The most popular types of speciality coffee are cappuccino, espresso and caffè latte.
- Drinkers of speciality coffee are more often women, on average.

*Source: Brandflow surveys,
IRO Research 10/2008*

CASE: Research into the effects of coffee on health

Coffee and the components it contains have long been subject to active research. Scientific research carried out in recent years has yielded large quantities of new evidence of coffee's benefits to health. A healthy person can drink 4–5 cups of coffee per day with an easy mind. According to research, moderate coffee drinking can even have health-promoting effects: drinking coffee may reduce the risk of suffering from complaints such as type-two diabetes or Alzheimer's disease.

As a member of the Roastery Association, Paulig is part of an international coffee and health communications programme coordinated by the International Coffee Organisation (ICO), which collects and distributes coffee-related scientific research data for people working in health care. The accuracy of the information is verified by academic experts.

Further information on coffee and health: www.kahvi.net/terveys/

The beverage recommendation of the National Nutrition Council

According to the beverage recommendation of the Finnish National Nutrition Council issued in June 2008, coffee may be consumed on a daily basis, preferably without sugar and cream. It can be counted in with the daily liquid intake. Pregnant women are advised to restrict themselves to a maximum of three cups per day.



Paulig growing in the Baltic countries and Russia

Paulig and its coffees captured the retail market leadership in the Baltic countries in 2008.

This success is due to the Paulig Classic blend launched a few years ago. Exports to the Baltics and Russia now account for roughly a fifth of the company's sales.

Paulig will seek growth in the next few years in markets outside Finland in particular. The global economic crisis which began in 2008 has hit the Baltic countries and Russia harder than Finland, however. For this reason, no significant growth can be expected in these markets in 2009.

In the Baltic countries, the major international coffee companies are Paulig's competitors. In a heavily contested market, Paulig has succeeded in expanding its share by respecting local conditions and tastes, combined with high visibility in the market. Paulig's share of the Baltic markets is roughly 28 per cent (AC Nielsen, 12/2008).

Stimulation from coffee

In the Baltic countries and Russia, all coffees are marketed under the umbrella brand of Paulig. Among the most popular products in the market are Paulig President and especially Paulig Classic, which was developed

to match the tastes of consumers in the export markets. The Paulig product family also includes several espresso products.

Coffee is drunk for stimulation and it is most often enjoyed in workplaces and in the morning at home. Russians drink less than 0.5 kg of coffee per person a year and people in the Baltics consume 3–5 kg, varying from country to country. In Russia, roast coffee is still a speciality product, as about 4/5 of the coffee consumed is instant coffee.

In Latvia and Lithuania, the most popular method is to make coffee in the cup. Several methods are used in Estonia, ranging from French presses to filtering. In Russia, coffee made in the cup and Turkish-style coffee are popular. The coffees used are roasted darker than traditional Finnish coffees.

OOO Paulig Coffee started up in Russia

In Russia, Paulig competes against both local and international players. In modern retail chains, Paulig is number two in terms of sales and holds the top spot in terms of value.

In 2008, Paulig started a subsidiary in Russia, OOO Paulig Coffee, which makes commercial contracts directly with retailing chains which have set up their own central warehouses. Coffee deliveries are now sent direct from Vuosaari to Moscow.



CASE: Paulig opened an agency in Ukraine

Paulig has been exporting to Ukraine for more than 10 years. In early 2008, the company set up a representative office in Kyiv, and towards the end of the year it launched Paulig Classic coffee for the Ukrainians. The intention is to establish a bridgehead in modern retail chains in Ukraine and to make the products familiar to the Ukrainians with the help of high-profile product promotion and effective in-store visibility. In other words, to make Ukrainians enthusiastic about coffee.

"Ukraine's coffee culture is still in its infancy, and since we are on the move early we have a chance to grow with our customers," says Country Manager Dmitry Vinokurov, who has moved from St Petersburg to Ukraine.

"Ukraine has 46 million inhabitants and it has made economic progress. It is joining the World Trade Organisation (WTO), so business methods are becoming more transparent than before. The economic crisis has hit home here too, so we'll have to hit the brakes for a while," Dmitry says.

A good year for finance in 2008

A favourable financial performance creates a basis to develop operations on the long term and to invest in new production units, environmentally friendly solutions and the personnel's wellbeing. Success also benefits society in the form of income taxes and jobs.

Paulig's market position strengthened in all markets and net sales rose to 232 million euros. In Finland, Paulig is the clear market leader*, holding roughly two thirds of the market. The company's financial performance for last year was good, which creates a sustainable basis for the company's capital spending on roasteries. In Finland, a 120 million euro roastery project is advancing according to plan and the roastery will come on stream by the end of 2009. The start of the roastery planned for Russia was postponed because of the economic situation. Deals have been made for a plot of land in Borovlevo, Tver, and the necessary plans and permits are in place

for when the decision on the go-ahead is made. In spring 2008, Paulig started a company in Russia called OOO Paulig Coffee, which imports, warehouses, sells and distributes Paulig's coffee products in the market. To boost the market position in Ukraine, a representative office was started there in early 2008.

Paulig's annual output of coffee in 2008 was 45 043 tonnes. During the period covered by the report, Finland imported 3 517 tonnes of roasted coffee products. Exports amounted to 8 551 tonnes of coffee, of which Paulig's share was 87 per cent.

Jobs from bean to cup

Paulig's most important costs arise from purchases of green coffee and other materials, such as packaging. Most procurements were made in coffee producing countries. The company's procurements have an important indirect impact on employment in several countries.

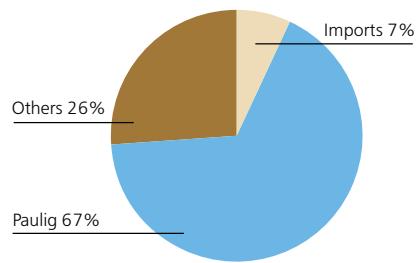
At the end of 2008, Paulig had 263 employees in Finland, whose salaries with indirect costs totalled almost 13 million euros. This sum includes taxable perquisites.

Operating in three regions

Paulig's Coffee Division is led by Managing Director Pekka Pirinen. The organisation is divided into three geographical regions: the Nordic region, the Baltic countries and Russia. The Regional Director for the Nordic area is Leif Hellman, the Baltic Regional Director is Tambet Hook and the Russian Country Manager is Denis Smirnov.

The Coffee Division's management handles marketing, personnel development, finance, IT and delivery chain management on a centralised basis.

Finnish coffee production and imports of coffee in 2008*



* The figures are based on data from the Finnish Food and Drink Industries' Federation and the customs authority as well as Paulig's own sales statistics. AC Nielsen's figures are no longer available in Finland.

Financial responsibility indicators (EUR 1,000) **

Financial year	1.5.2004– 30.4.2005	1.5.2005– 31.12.2005***	1.1.2006– 31.12.2006	1.1.2007– 31.12.2007	1.1.2008– 31.12.2008****
Net sales	159,900	115,307	200,403	210,110	232,139
Wages and salaries, indirect costs and perquisites	11,000	7,396	11,831	12,339	12,983
Purchasing costs of ingredients and materials	82,000	71,249	117,539	119,650	141,063
Interest and other financial income	2,158	124	278	511	400
Interest and other financial expenditure	273	945	753	1,704	1,814
Investments	1,108	1,247	2,971	8,369	20,138

** The operational result is reported as a part of the financial statements of the parent company Gustav Paulig Ltd.

*** The financial year 2005 (1.5.–31.12.) was only 8 months in length and thus is not suitable for comparison.

Calculated net sales for 2005 were approximately 172 million euros.

**** The financial year 2008 includes a two-month pro forma period for Paulig Pro Finland.

Paulig Pro Finland's business interests were transferred to Gustav Paulig on 31 October 2008.

More power to the out-of-home market

The out-of-home market for coffee has grown and diversified over the past few years. More and more customers want to buy in an all-inclusive service for coffee provision, getting products, equipment and additional services from one and the same supplier. Paulig has for some years dynamically developed its capabilities in this growing market – for example, by corporate acquisitions in Finland, Sweden and the Baltic countries. During the year covered by the report, Paulig merged its units in Finland offering coffee provision services into the PRO business sector, and in Sweden it founded Paulig Coffee AB. The company also took over its associated company operating in the Baltic countries, Bossa Teeninduse AS.

In addition to its quality coffees, Paulig is now able to provide its customers in the retail, HORECA and office sectors with a diverse range of coffee equipment complete with maintenance and design services.

Pro relies on quality: coffee machines and dispensers grind coffee with real beans. "The products, service and quality – as well, of course, as the Paulig brand – are our strong points in the marketplace," says HORECA Sales Manager Anu Kokko, flanked by Sales Manager Lari Salomaa, who is in charge of office coffee services.

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