



Paulig

From bean to cup
Corporate responsibility
Web report 2011

Paulig



Responsibility site

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Introduction

In 2011, Paulig made a number of large deployments closely involved with corporate responsibility. The biggest of these was the opening of the new roastery in Tver, Russia, which constituted the fruit of years of work. We also launched many new products in different markets, harmonised our systems for leadership and quality management, initiated a broad-based corporate culture project, customised new services and products for customers, and we surveyed consumer trends.

As of 2011, we are reporting on the progress of our work in corporate responsibility on our website. This archive includes the sections of our corporate responsibility site whose contents have changed since 2011.

Leader

For Paulig, responsibility means deeds

Responsibility for us at Paulig means long-term practical work and commitment. After ten years of systematic work, we have made progress in many areas.

Responsibility is a natural part of our everyday life and management; it guides our choices and our decisions.

In the past few years, our company has advanced in giant steps towards growth and internationalisation. We seek growth particularly in Russia, the CIS and the Baltic countries.

The Swedish and Norwegian coffee service market also offers good opportunities. It is our goal to boost the proportion of sales due to markets outside Finland from the current figure of 30 per cent to 40 per cent while continuing to take good care of Finnish consumers' coffee enjoyment. Internationalisation challenges us to spread responsible business methods and practices to all our markets, whose perspectives and notions of responsibility can be very different. In Russia, responsibility is not yet visible in consumption habits, whereas Swedish consumers are pioneers in making responsible choices.

In 2011 we took giant steps forward in promoting responsibility. The biggest effort was the result of years of work, the opening of the new Tver roastery in Russia. For the personnel, opening the plant and the start-up of production was a demanding project. At the same time, it gave a number of coffee professionals an opportunity to use their skills in a new setting.

You are welcome to follow the development of responsibility in the coffee chain

Elisa Markula
Managing Director
Paulig Coffee Division



More than 30 coffee professionals from Finland took part in coaching their future colleagues. The excellent result was sealed in the autumn when the plant was granted ISO 22 000 product safety certification. We are immensely proud and happy with this superb achievement in the early days of the plant.

In the coffee business, responsibility extends from one end of the globe to the other: from the countries of origin through the procurement chain and production plants and onwards to the coffee-drinking consumers in different markets. Our responsibility as a company reaches from the bean to the cup, and we continue the work with the support of our solid foundation of

values. From now on, we will publicise the small and large steps in our work on this website instead of a printed report – this is another small contribution to the environment.

Examples of our responsibility work in 2011

- Our new roastery is one of the most energy-efficient in the world. Its annual consumption of natural gas is over 20% lower than in the old roastery.
- Improvements in packaging materials continued. We were among the first in the world to adopt a biodegradable laminate in coffee packagings for the Horeca sector
- By making packaging laminates thinner, we reduced the amount of consumers' mixed wastes by 10,000 kilos
- We invested in occupational safety management and received certification for our OHSAS 18001 occupational safety system
- We took part in revamping the Paulig Group's common corporate culture and identity and we created common new values
- We continued training courses for management and supervisors' leadership skills. In all, 154 people from 11 different countries have so far attended these.
- In the countries of origin, we continued to communicate the procurement guidelines of the Paulig Code of Conduct to our partners. The Code has now been accepted by all concerned.
- We made progress in improving the traceability of our green coffee. Already, 86 per cent of the coffee we purchase can be traced back to the plantation or cooperative level.
- We continued projects to improve smallholders' skills and living conditions in the coffee countries together with our International Coffee Partners. The projects have already involved more than 16,000 growers.
- We launched the Coffee and Climate project supporting small-scale coffee growers jointly with six other European coffee companies.
- We developed our product range dynamically, drawing on consumer trends. For example, we brought out Fairtrade Organic products for people who emphasise responsibility, the Paulig Cupsolo capsule coffee-maker for consumers who want fast convenience, and top-quality Paulig Selected blends for people interested in premium products.

Procurement

It is Paulig's goal to secure the responsibility of all the coffee it produces throughout the value chain, from bean to cup. The traceability of green coffee improved slightly in 2011 in comparison with 2010.

International Coffee Partners over 11 years, 16,000 stories

Roughly 70% of the world's coffee comes from smallholdings, mostly with an area of less than two hectares. Growers' earn a scanty living because of small harvests, low productivity and quality, soil erosion, problems with selling, etc.

Improving the skills and wellbeing of small producers is of great importance to the future of the entire coffee sector. International Coffee Partners (ICP), which is comprised of Paulig and five other European coffee enterprises, has done 11 years of practical work to improve the living conditions and earnings of coffee growers.

To date more than 16,000 growers in the coffee-producing countries of South and Central America, Africa and Asia have taken part in projects lasting 3-5 years.

International development organisations and local partners also participate in financing and implementing



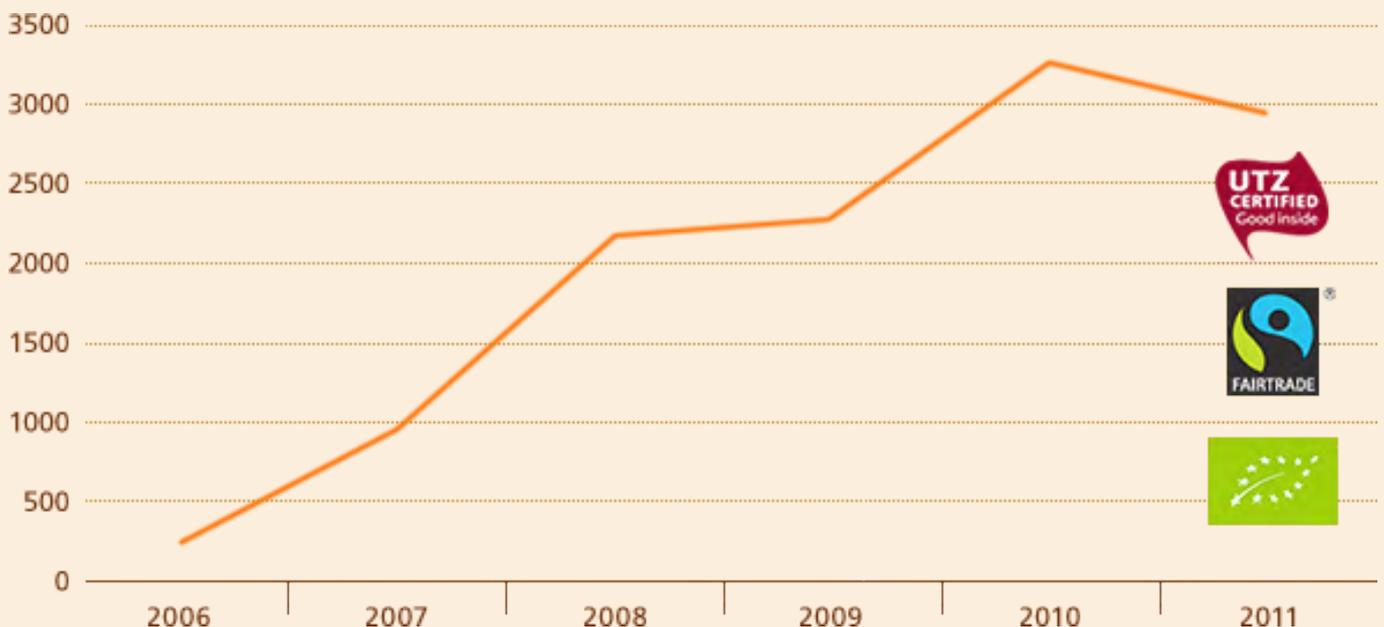
the projects. ICP's corporate partners finance roughly half of the activities, to date totalling roughly 6 million euros, of which Paulig's share is about one-fifth. At the end of 2011 six projects were under way, with two being planned and seven completed.

www.coffee-partners.org

Figures and results of our work

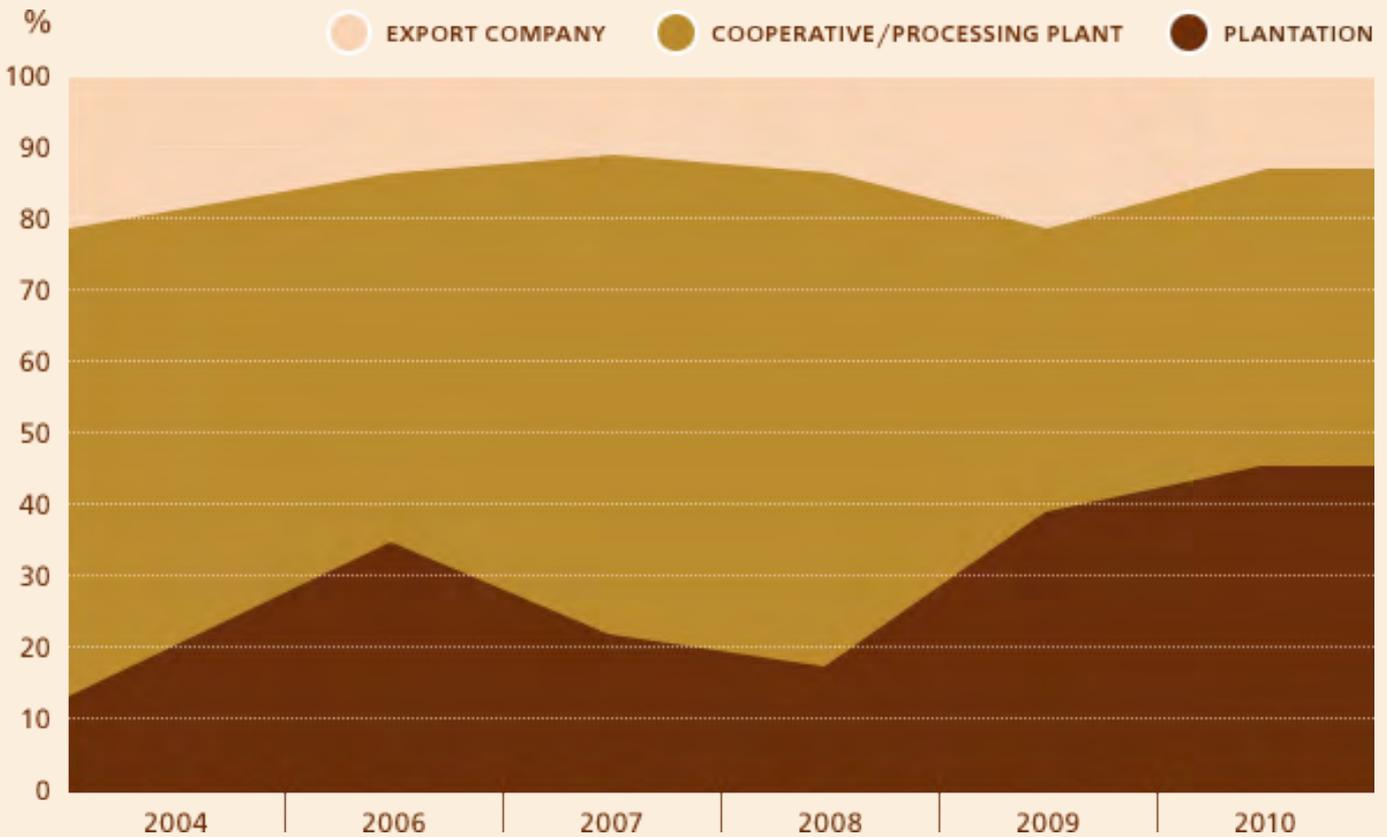
Paulig's purchases of certified coffee grades (tonnes)

Responsibility-labelled green coffee accounts for some 10% of global output and demand is growing. The manufacturing of products with responsibility-labelled ingredients is sometimes challenging because of the quality and scarcity of the supply of raw materials. Of the coffee purchased by Paulig in 2011, roughly 5% was certified for responsibility.



Trend in traceability

Paulig systematically develops the traceability of all the coffee it purchases in cooperation with its trading partners. Of the coffee purchased by Paulig in 2010, 100% could be traced back to the exporters in the countries of origin, 86% to the co-ops and processing plants, and 46% to the coffee plantations.



No traceability survey was done in 2005. Traceability research is conducted by sampling the most significant purchases.

In the harvest season of 2011, the world output of coffee was

7 944 000

tonnes 132.4 million bags (60 kg) of coffee.



For comparison: the estimated weight of the Great Pyramid of Giza is 6 – 6.5 million tonnes.

Improving traceability benefits the entire coffee chain

Traceability is a part of the coffee chain's management of risk and quality. It can help to obtain information on both the quality of the raw materials and such quality-related issues as ethics in the procurement chain. The better the coffee's origin is known, the easier it is to manage and oversee the delivery and production chains and to solve problems arising in them.

Because of the massive scale of the coffee trade and the predominantly small size of plantations, tracing green coffee back to the plantation is a challenge. Tracing all coffee is still a long way off, because there are no established, global methods available. There are also big differences between the coffee producing countries. At the same time, consumers' interest in the origins and responsible production of coffee is constantly growing.

Paulig is working systematically on the traceability of all the coffee it buys in cooperation with its trading partners. In 2010, the coffee bought by Paulig could be traced 100% to the export companies in the countries of origin, 86% to the cooperatives and processing plants, and 46% to the coffee plantation.



Research on traceability continues in 2012. Research is performed in the form of spot checks, but it covers a considerable portion of green coffee purchases. Targets are set for traceability, and traceability is monitored by Paulig for individual countries. For the targets to be realistic, they figure in the countries' differing stages of development.

You can trace the origin of our UTZ certified coffee yourself here.

Personnel

Paulig's well-known brands are made through the work of coffee professionals with strong expertise. In the period 2010–2011, the development of leadership skills was a particular focus of attention. Also, a project started throughout the Paulig Group in summer 2011 to update the corporate identity and corporate culture.

Well-being personnel in the core of responsibility work

Paulig's well-known brands are created by coffee professionals who know their business. Paulig's Coffee Division has almost 500 employees in seven countries.



Our enterprise has many kinds of jobs in purchasing, manufacturing, quality assessment, product development, laboratory work, training and consumer service as well as in sales, marketing and financial administration. Special professional titles in this field are roaster and taster.

The employer's care and responsibility for the personnel are reflected in the responsibility of the entire enterprise. Good management is a key factor in

enjoying the job and getting results. Management and success in it are also measured at Paulig. In addition to the management culture, wellbeing is also affected by such factors as occupational health and safety as well as development work and training. Wellbeing at Paulig is promoted by energetic club and leisure activities.

Investing in occupational healthcare and safety is worthwhile. Absences due to sickness and work accidents

are markedly lower at Paulig than the average for the business sector. Close attention has been paid to working conditions and comfort, including ergonomics, ventilation and lighting, in the new roasteries in Vuosaari and Tver.

The implementation of personnel responsibility is measured throughout the Paulig Group with an extensive TellUS survey carried out in alternate years. The next survey will be performed in autumn 2012.

Coffee division's personnel figures, 31 December 2011

Finland

- Number of personnel 207
- Office staff 114 and production employees 93
- Women 93 and men 114
- Number of permanent contracts 180
- Average length of employment 14 years
- Average age of personnel 44 years
- 4 employees took retirement
- Union membership rate among roastery workers was roughly 90 per cent
- At the Vuosaari complex, there were also roughly 30 employees of external service providers at work in places including the staff restaurant, guard duties and warehouse services.

Russia and Ukraine

- Total number of personnel 129
- Office staff 105 and production employees 24

Baltic countries

- Number of personnel 15
- Office staff 15

The subsidiary Vendor had a total of 155 personnel in Finland, the Baltic countries and Sweden.

A harmonised management culture motivates and yields results

Good leadership means motivated and committed employees and the best results from work.

Leadership development is one of the most important and biggest projects at Paulig. The aim of the broad-based project, which was started at the end of 2009, is to create a common leadership framework containing behavioural leadership competencies for the entire Paulig Group.

In the period 2010-2011, leadership development was a particular focus of attention. The cornerstone of the new leadership framework is performance management through annual objec-

tives.. Clear, measurable targets that are appropriate for the role are the best way to guide work. Everyone must know what he or she is aiming for in their job, how the targets are measured, and how well they have succeeded. Regular development discussions play an important part in expanding expertise.

3D-performance management process is in use throughout the Group. The aim in 2012 is to have 3D-discussions conducted in the agreed timeframe for



each employee. In 2011 the target was attained roughly 95%.

“The values must not be just fine words. They should be a functional tool that guides what we do also in practice.”

– Tanya Strohmayer, HR Director

Shared values throughout the Group

In summer 2011, another important project was launched for the entire Paulig Group, a revamp of the corporate identity and culture. The background to this is a major change in the beginning of 2010, when the Swedish company Santa Maria AB became part of Paulig and the Group's number of personnel and net sales more than doubled. The project to update the corporate identity and culture also modernised the common values. More than a 10-strong team was summoned to work on these

from various parts of the Group. The project team included representatives of all personnel groups except senior management, who were able to comment on the committee's recommendations.

The goal is to link the values more closely than before to everyday work and to the Paulig way of doing things. The values are a practical tool helping everyone to take bearings on their choices and their way of doing things in

their own work. It is not only achieving goals that is important but also the way in which they are attained. This will also be assessed in the future. It is hoped that the effects will reflect on Paulig's corporate culture and further reinforce it.

The personnel left a strong imprint on the results of half a year's intensive work, which were announced in March 2012.

Mission

The best tastes for enjoyable moments.

Vision

The attractive European company that inspires you to taste the world.



Strategy

Product category leadership. We are growing in chosen regions in Europe. Our goal is to be the market leader for seasonings, international food and coffee. We assist our retailers, foodservice and B-2-B customers to add value through our strong brands and our private label products. Inspiring innovations are our key factor in expanding our product categories. We uphold uncompromising quality, sustainable working methods and long-term commitment to the profitability of business operations.

Values

*Stay curious
Strive for excellence
Grow together*

Top results with the right expertise

We value expertise and we provide our personnel with opportunities for constantly improving it. Along with targeted work and training sessions, it also opens up opportunities in the various units of an international corporate group.

The Bridge training program for leadership and supervisory skills was attended by a total of 154 supervisors from 11 different countries during the period 2010-2011. The program provides practical tools for everyday supervisory work, such as how individual strong points can best be brought out and how to encourage different kinds of people.

An assessment made of the Bridge program shows that the benefits of the training are already making themselves felt in practical work throughout the Paulig Group. Most (56%) of the people who took part in the Bridge program felt that the practices learned during the program improved the results of work and 40% said they would use the tenets of the program in their jobs. The disciplines described as the most valuable and most used were communications skills related to change management, intra-team communication and developing trust as well as setting targets and communicating them to a team.



The Coffee Division also carried out the Booster and Optimizer programs in 2011. The intensive, practice-focused Booster training deals with efficient selling techniques, calculating added value for the customer, enhancing key accounts, negotiation skills, etc. There were 90 participants in the program from the various countries of the Coffee Division. The Optimizer training program aims to enhance procurement operations. There were five attendees for this. Various types of smaller training sessions and induction are also constantly being held in different countries.

Work safety means constant vigilance

Paulig's Vuosaari roastery was granted 2011 OHSAS 18001 certification in January 2011. The annual audit includes the functionality of the workplace safety action program, the occupational health and safety system, reporting of near misses, and safety in manufacturing facilities.

The risk assessment examines the entire manufacturing plant precincts, with interiors and grounds, from the workplace safety perspective. A similar risk assessment will be performed at the Tver roastery as well this year. The same workplace safety protocols and guidelines are applied in Tver as at the Vuosaari roastery.

The personnel are encouraged to check their working environs from the safety viewpoint and to report any defects immediately. In 2011, 54 workplace safety observations were collected through a campaign in the Vuosaari roastery area.

These observations led to improvements included better grounds lighting, more access decks for machinery, and more detailed guidelines. The collection of observations continues.

Workplace accidents are usually caused by slipping or stumbling. In 2011, a total of eight workplace accidents occurred at Paulig.

In reporting absences due to workplace accidents, Paulig is going over to using the so-called accident frequency figure instead of the previously used number of days of absence. The figure, which

is used by the Finnish Occupational Safety and Health Administration, is calculated as the ratio of accidents leading to absence during the financial year to the amount of working time put in. Cases in which accidents which have led to at least one day or one shift of absence, including the day of the accident, are counted as accidents leading to absence. The ratio is counted per million working hours.

Aiming for zero accidents

Paulig's Vuosaari roastery is a participant in the Zero Accidents forum, which is a network formed by Finnish workplaces in 2003. The forum has been joined by almost 300 workplaces, which are united by a genuine desire to improve safety. The guiding principle is to learn from others, also across boundaries between business sectors. In addition to interactivity, the network provides information, tools and training to improve safety in the workplace. In 2011, Paulig adopted real-time work safety monitoring. The intranet has date-specific data on how many days have passed since the latest accidents.



Figures and the results of our work

Trend in occupational health indicators at Vuosaari roastery*

Absence due to illness and occupational accidents is distinctly lower at Paulig than the average for the food industry. In 2011, the accident frequency rate was 19, compared with about 50 for the food industry as a whole and about 30 for all sectors. (Source: <http://www.ttk.fi/toimialat/elintarviketeollisuus/tyotapaturmatilastoja>)

	2007	2008	2009	2010	2011
Number of accidents	5	3	3	7	7
Accident frequency**	19	8	11	19	19
Sickness absenteeism percentage	2,1	2,2	2,3	2,3	2,6

*Gustav Paulig Ltd

**Number of accidents leading to at least one day's absence relative to the number of working hours performed

Business

A good financial result facilitates long-term development and investment. The price of green coffee has a major impact on the entire coffee chain. The price of coffee in 2011 was at a historical high and for a long time it was well above the long-term average. Paulig annually buys about 0.7% of the world's green coffee output, totalling roughly 60 million kilos.

2011: a good operational result in challenging economic conditions

The net sales for Paulig's coffee division were up on the previous year by 27 per cent, being roughly 333 million euros. The increase in net sales was affected to some extent by the high price of coffee. Paulig was somewhat short of the target for earnings, but the operational result was good in view of the raw materials market and the difficult economic conditions.

Success in purchasing green coffee – both financially and qualitatively – is crucial for Paulig. Green coffee accounts for 90% of all procurement. Both the price of green coffee and the currency market demand constant surveillance. Other expense items are easier to forecast.

The year 2011 was exceptional on the coffee market. Green coffee prices rose to record heights on the New York exchange, which impacted the entire coffee chain all the way to the consumer. Wide price swings also caused uncertainty on the market. Last year, the price of coffee on the commodity exchange swung from 215 to 306 cents (USD) per pound (approx. 454 grams).

Paulig's market position remained strong in all business sectors. In Finland, Paulig is still the clear market leader. Although the year was challenging due to an exceptionally large rise in the price of coffee, sales went well. Paulig's well-known brands continued to retain their great popularity among Finns.

In Russia, the trend in market share went according to plan. It is now possible to produce most of the brands sold in Russia at the new roastery in Tver. In the Baltic countries, Paulig did well and maintained its market share even though poor economic conditions in these countries caused a more than 10 per cent downturn in overall consumption of coffee.



“Success in purchasing green coffee – both financially and qualitatively – is crucial for business.”

– Jukka Kervinen, CFO

High coffee price due to many factors

The price of coffee hit a record high in 2011 and it is still well above the long-term average. There are many factors behind this price trend. The price of green coffee is made more sensitive by variations in harvests, the state of the global economy, growing demand in developing and coffee-producing countries, and investors' interest in coffee.

The price of coffee is set on the coffee exchanges of New York and London. For Paulig, the New York exchange is more important, as roughly 98 per cent of Paulig's purchases are arabica coffee, which is quoted in New York. A bonus is paid for good quality in addition to the market price. Paulig buys large quantities of top-grade coffees and the situation demands careful financial risk management.

Last year, the global recession raised the price of many raw materials when capital shifted from shares to commodity funds. Currency fluctuations, particularly the strengthening of the US dollar against the euro, also meant increased price pressure.

Weather conditions and climate change have increased uncertainty over harvests. Unexpected changes in the weather have put most pressure on the top-quality raw materials that Paulig buys, for which the balance of demand and supply is already delicate. Read more about the impacts of climate change on coffee cultivation.

“We pay a bonus for good quality on top of the market price.”

– Katariina Aho, Purchasing Director



Worldwide, coffee consumption is rising by roughly three per cent a year. The increase in consumption is fastest in developing countries such as China and India. Growing demand is causing big changes in the coffee market, and it can be expected that demand for green coffee will grow faster than production. For production to meet the rising demand, the cultivation of coffee must be increased or a better yield will have to be obtained from existing plantations. The remuneration paid for the product affects the growers' willingness to cultivate coffee rather than, for example, rubber trees or sugarcane.

Figures and the results of our work

Trend in the green coffee price on the New York commodity exchange

The price of coffee touched on a record historical high in 2011 and is still well above the long-term average. Paulig purchases roughly 0.7% of the world's green coffee output annually, in all roughly 60 million kilos.



*Arabica coffees are the most used in Finland. The price of Arabica is determined in the New York Stock Exchange. The price is quoted in dollar cents (USD) per pound (454 grams).

Tonnes of coffee completed at the Vuosaari and Tver roasteries in 2011

43739



Financial responsibility indicators in Finland (EUR 1,000)*

Financial year	2007	2008	2009**	2010	2011
Net sales	210 110	232 139	232 504	261 540	332 918
Wages and salaries, indirect costs and prerequisites	12 339	12 983	16 505	13 304	13 288
Purchasing costs of ingredients and materials	119 650	141 063	132 520	187 304	247 388
Interest and other financial income	511	400	809	110	480
Interest and other financial expenditure	1 704	1 814	2 005	2 794	2 398
Investments	8 369	20 138	24 513	6 407	1 832

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

**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.

Environment

We aim to promote environmental wellbeing both directly and indirectly throughout the coffee chain. We can have the greatest impact on environmental issues in our in-house operations, such as logistics, manufacturing and packaging. In 2011, Paulig continued to improve the packaging for its biggest product, Juhla Mokka blend. By making this thinner, the consumption of packaging laminates was down on the previous year by 10,000 kilos. Thanks to the reduction in the quantity of materials, the carbon dioxide emissions of the packaging manufacturing process declined by some 25 tonnes.

Improving packaging is a long-term job

Coffee needs packaging which will protect it from oxygen, moisture and light, retaining flavours and aromas and withstanding transport intact from the roastery all the way to the final users.

We at Paulig constantly seek new, environmentally friendly alternatives for packaging coffee. There are two ways to do this: reducing the quantity of current packaging materials, or developing and adopting totally new materials that are more environmentally friendly. Packaging accounts for roughly 5% of the environmental impacts of coffee products, excluding the disposal of packagings.

Packaging product development demands time and patience because every new packaging innovation can only reach the deployment stage at the earliest a year later. In order to attain environmental friendliness, making packagings thinner or adopting new materials must not cause deterioration in the quality of the coffee or jeopardise the technological standards of the packagings. All new packagings are subjected to testing, for example for several months' storability, to ensure that the flawless quality of the coffee is maintained.



Laminate packagings are classified as mixed waste at the moment because they contain a small amount of aluminium for oxygen barrier to help preserve the coffee. By making the packaging laminate thinner, we have successfully reduced the annual quantity of household waste ending in landfills. In 2011, Paulig continued the development of the packaging for its biggest product, Juhla Mokka blend. Thanks to thinner packaging laminate, consumption of this material was reduced by 10,000 kilos on the previous year. As a result of the reduced quantity of material, carbon dioxide emissions in the packaging production process were cut by some 25 tonnes. Development work continues in 2012, with the goal of reducing consumption of packaging laminate by roughly 50,000 kilos and carbon dioxide emissions by 100,000 kilos.

Tomorrow's packagings will be biodegradable

Paulig is one of the first coffee companies in the world to be working on the development of biodegradable packagings. Biodegradable materials are already in professional use, for example in packagings for hotels, cafés, restaurants and workplaces. The raw materials used for these packagings include

cornstarch and paper. The packagings are 100% biodegradable in industrial composting.

In some foodservice packagings, we use aluminium-free laminate. This makes it possible to sort the packagings as energy waste for fuel in the

production of electricity and heating. Also, a product development project is under way at Paulig in which the use of bioplastic for coffee packaging is researched. Bioplastic is a polyethylene non fossil material.

“Paulig is one of the first coffee companies in the world to develop biodegradable packagings.”

– Kai Eira, Purchasing Manager

Less waste, all of it sorted

Paulig seeks to minimise its environmental impact by investing in the best available technology and by designing and managing the manufacturing process for maximum efficiency.

Environmental awareness and expertise play a key role in production. The environmental goals of the Vuosaari roastery include improvements in energy-efficiency and the reduction of packaging material as well as cutting down on the quantity of waste.

Mixed waste at zero

At Paulig, all waste is sorted. Over the years, particularly close attention has been paid to organising waste sorting, and the results achieved by this are good. For example, the Vuosaari roastery produces no mixed waste at all.

The aim is for all wastes to be recycled as a material or at least for energy. The largest categories are energy and organic waste. Organic waste is partly composted and partly used for energy. New points in waste sorting are the inclusion of plastic recovery and sending part of the organic waste to a biogas plant.



“In the beginning of 2012, Paulig joined the climate partnership network of the Finnish business community and the City of Helsinki. At the same time, we committed ourselves to a significant reduction in the quantity of organic waste and other action.”

– Erkki Enström, Production Manager

Measurable targets encourage waste reduction

Quantities of waste at Paulig have been monitored systematically since 2002, and in 2012 a tangible benchmark was set for reducing these. This year, the target is to reduce the quantity of organic waste by ten per cent of last year's figure, and in the long term, by 2025, it is intended to reduce organic waste by a quarter.

Reducing the quantity of organic waste is also one of the bonus benchmarks for manufacturing personnel.

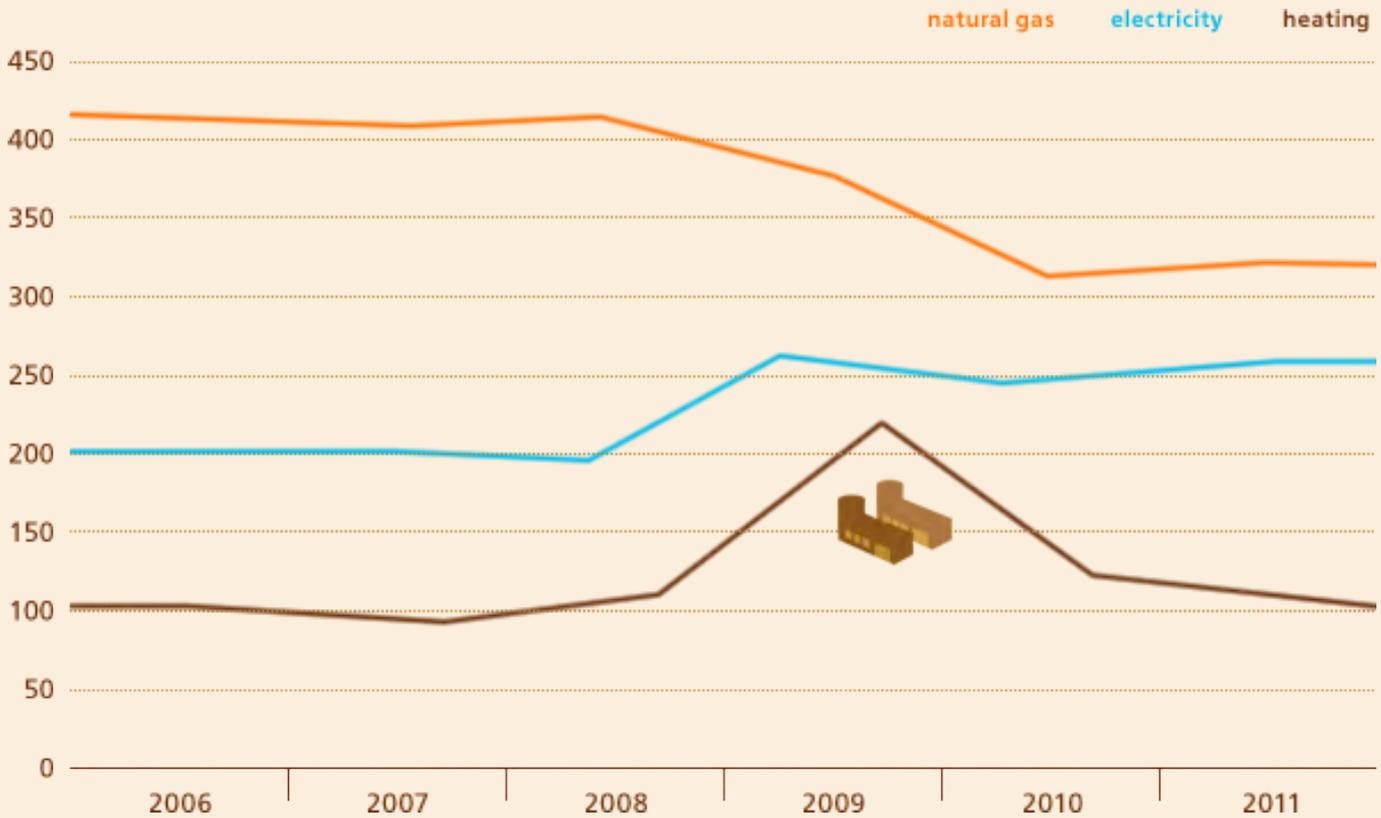
All employees know that they can affect the benchmark result by what they do. In order to reach the target, improvements also have to be made in the production process to reduce wastage. For example, removing stones from

incoming green coffee beans due to a change in the process results in substantially fewer coffee beans ending up as organic waste.

Further information about the climate partnership network:
<http://www.hel.fi/hki/Ymk/fi/uutiset/ilmastokumppanit>

Figures and the results of our work

Annual energy consumption per tonne of output (kWh/t)



“ In 2010, we ran down our old roastery in Vuosaari and started up the new roastery, which naturally affected energy consumption and waste quantities. The distinctly lower figures for 2011 show that the new roastery’s processes have successfully found their stride.”

– Erkki Enström, Production Manager

In 2011, Paulig used

10 000 kg

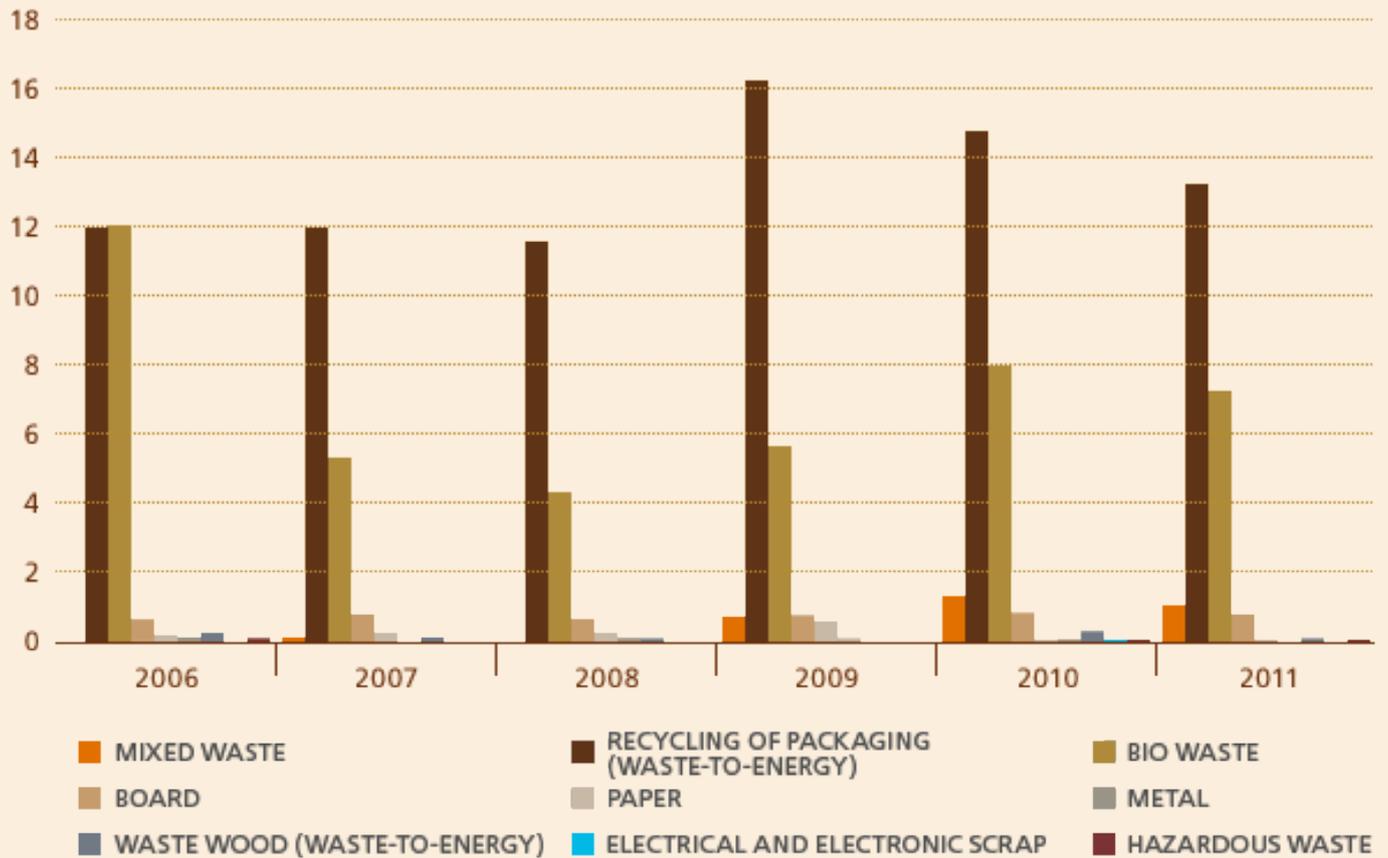
less packaging material than in the previous year.



The combined mass of the material saved is the equivalent of roughly ten cars.

Annual quantity of waste per tonne of output (kilos/tonne of coffee produced)

Quantities of waste have been monitored systematically since 2002. The aim is for all wastes to be recycled as a material or for energy. No mixed waste at all is produced any longer at the Vuosaari roastery.



Products and services

Consumer' interest in coffee and new flavour experiences is growing in tandem with their expectations of coffee manufacturers. Flavour and quality are crucial, but increasingly often corporate responsibility perspectives, such as ecological aspects, ethicality or organic origins, are also behind choices.

We engage in an active dialogue with consumers and our customers through consumer service, customer and field visits, and surveys. In 2011, we achieved excellent results in customer satisfaction surveys. We also carried out ethnographically based consumer surveys in Finland and Russia.

Product development is guided by research data and listening to consumers

We constantly monitor changes in consumption behaviour and flavour preferences as well as developments in coffee trends in different markets.

We engage in active dialogue with consumers and our customers through our consumer service as well as on customer and field visits and through surveys. We research and explore things like the familiarity profile of Paulig products and consumers' attitudes to them. We also regularly survey customer satisfaction, and in 2011 our poll gave us excellent results.

In the development of new products, research and consumers' opinions are of particularly great importance. We test new concepts and approaches with customers and consumers for flavour, packaging, usability, design, marketing communications, etc. Through our consumer service, we get a great deal of valuable feedback on product development direct from consumers.

In 2011, Paulig performed ethnographic consumer surveys in Finland and Russia. In Finland the subjects were the life styles of young people and the role of different kinds of drinks and coffee in them. In Russia the role of coffee in consumers' everyday lives was surveyed, as were the types of interface coffee has in general in the lives of the people.

“There are differences in the coffee cultures of different countries, and Paulig develops its array of products with this and other aspects in mind.”

– Päivi Suomalainen, Market Research Manager



Urbanisation and the mobile, individual lifestyle are also having an impact on coffee trends. Convenience, speed, comfort and various alternatives are interesting to coffee consumers. Takeaway coffee, ready-made coffee beverages and single-serving coffees are part of this tendency. In addition to everyday coffee consumption, there is a desire to make certain coffee moments even more special by choosing top-quality premium coffees for them. There is also growing interest in responsibility-certified coffees. Certifications for the coffee sector are not yet very well-known, but their inclusion in people's favourite coffee brand is seen as positive. Of the coffee sold in Finland, an estimated 3-5 % is certified (UTZ CERTIFIED, Fairtrade, Organic).

New alternatives for changing coffee habits

In autumn 2011, Paulig staked out new territory by launching the multi-application home-use Paulig Capsolo coffee-maker and single-serving capsule for it. Unlike other appliances on the market, it can be used to make filter coffee, tea and hot chocolate in addition to speciality coffee.

The range of responsibility-certified products also made progress. Paulig Mundo received Fairtrade and Organic labelling rights, as did the new country of origin coffee Paulig Mexico. Paulig Profondo espresso coffee, Presidentti Gold Label Black, and the first super-premium coffee Paulig Selected



respond to the growing demand for speciality coffees and top-quality blends. Paulig Selected went on sale in Finland and Russia. A new, affordably priced blend called Paulig Mokka was also launched on the Russian market.

Paulig now also serves coffee-lovers with its own online shop www.pauligshop.fi.



Customised solutions for the customer's coffee needs

The needs and expectations of Horeca and office customers may be very different, depending on the business concept. The best solutions are created in close collaboration with the customer. The customer's objectives, premises, coffee needs, number of users and their expectations form a basis for solutions proposed by Paulig's professionals.

The solutions also take into account the customer's targets for responsibility. Certified coffee, biodegradable packagings and coffee mugs, and recycling of disused equipment are part of the service.

Consumer service is the nexus of interaction

Consumer service is a direct channel to coffee-lovers. It is also an important part of Paulig's quality control.

Each year, consumer service receives roughly 4,000 coffee-related communications, and these are replied to in person. In addition to phone calls, emails and letters, a new online service was introduced for consumers in the early months of 2011. The internet service facilitates contact and improves the monitoring and handling of feedback at Paulig.

Consumers are interested not only in how coffee is brewed and how equipment is cleaned but also the recycling of coffee packagings and the origin, traceability and responsibility certifications of coffee. They also want information and guidance on how to brew and serve speciality coffees and what to serve with them. Enthusiastic coffee-drinkers often send us ideas for product development and their wishes for new products, which the consumer service section passes on to Paulig's product development for appraisal. It was on the basis of consumer feedback that Paulig's plastic measuring spoon was changed for an ecological bamboo



scoop and bean coffee packages were reduced in size.

The information received through product feedback is valuable for quality management and for production. All samples associated with complaints are examined by Paulig's laboratory and the cause of any flaw is investigated in detail whenever possible. The number of product complaints in 2011 was 599, which is 14.4 per million kilos of production (17 complaints in 2010). The number of product complaints relative to the volume of output has stayed small from year to year and declined last year.

A consumer service was started for the roastery in Tver, which was opened in autumn 2011, on the same lines as the Vuosaari model. In Finland two people work full-time in consumer service, in

Tver one. Vuosaari's specialists trained Tver's consumer service, the best practices have been duplicated and the reporting models are coordinated. In Russia, consumer service operations are still a new thing and there have been only a few enquiries. Consumer feedback from the Baltic countries is passed on to Finland. Contact and exchange of information between the offices is intense.

Consumer service also coordinates different kinds of consumer competitions and roastery visits. Vuosaari's new roastery is an interesting place to visit, and in 2011 80 tour groups comprising 2,000 people came to see it. The roastery can accommodate a limited number of visitors and tour groups are chosen twice a year.

"Coffee fans often send in ideas for product development and wishes for new products, and we pass these on."

– Kaisa Junikka, Consumer Service Manager

In 2011, the number of product complaints was down on the previous year by:

15,3%

TOP 3 questions for consumer service

How can I brew good coffee?

How do you clean a coffee-maker? How often should this be done? How does the cleanliness of a coffee-maker affect the flavour of coffee?

How can I arrange and prepare a coffee party?

Paula meets coffee fans

Paulig's Paula is the envoy of good coffee. She is also one of Finland's oldest PR figures and among the best-known characters in Finnish brand advertising.

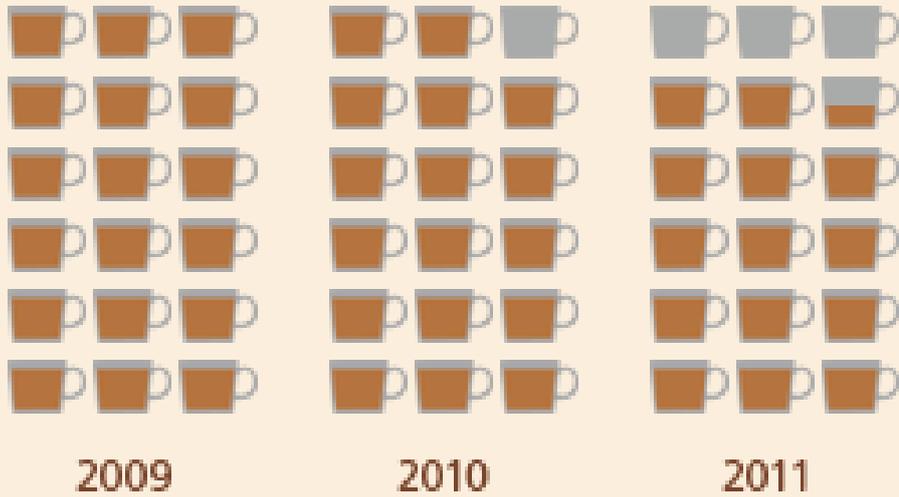
Paulig's 17th Paula gets out and about among consumers, keeps a blog and also has a presence on Facebook. Paula spends four days a week touring Finland, meeting stakeholders in cafés, restaurants, shops, trade fairs, educational institutes, training sessions and many kinds of events. Paula not only serves consumers with coffee lore, she also brings word from the consumers to Paulig.

Meet Paula: <http://paulig.fi/fi/yritys/paula> or on Facebook..



Figures and the results of our work

The number of product complaints decreased



A total of 599 product complaints were investigated in year 2011.

Counted per one million kilo roasted coffee the amount of complaints was 14,4.

Year 2010 the figure was 17 complaints per million kilo.

Enquiries received by consumer service



Frequently asked questions

How are coffee packages disposed of?

Coffee packages containing laminate are sorted as mixed waste.

How is the Paulig Cupsolo coffee-maker capsule recycled?

Coffee capsules are currently included in mixed waste. The carton can be recycled with cardboard.

What does tracing mean?

Tracing means checking the routes of the raw materials in the procurement chain, from the end product to the ingredient supplier, any intermediate stages and ultimately to the grower's plantation.

Tracing yields information about both the product's quality factors and the ethicality of the procurement chain. This affords an opportunity to tackle problems like flavour defects in an ingredient, and it provides information on where in the chain problems have arisen.

What is meant by certified coffee?

Certified, i.e. responsibility-labelled, coffee has been grown and produced in accordance with the guidelines for the certification. Compliance is monitored by independent exterior parties who carry out annual inspections. An estimated 8 per cent of the world's coffee output is labelled for responsibility (Volcafe 2011).

The best-known certifications in the coffee sector are Fairtrade, UTZ CERTIFIED, Rainforest Alliance and Organic. KRAV is also in use in Sweden. Some coffee plantations have several certifications.

What is the difference between different types of certification?

The common aim of responsibility certifications is to promote social responsibility in the production chain. The various standards differ slightly in their emphases. There are international projects under way aiming to harmonise the criteria of these voluntary standards. See www.isealalliance.org

UTZ CERTIFIED guidelines include economic, social and environmental viewpoints. The programme stresses the development of growers' skills and improvements for plantations' profitability.

The Fairtrade standard also figures in all three subdivisions of responsibility. It is aimed primarily at smallholders and it emphasises improving the wellbeing of communities more strongly than the others.

The EU law on organic produce focuses on environmental aspects. The Organic label shows that the product has been prepared in accordance with supervised organic regulations.

The KRAV certification used in Sweden requires a product to have both ethical and organic certification (e.g., Organic + Fairtrade or Organic + UTZ CERTIFIED).

Pricing:

Organic and UTZ CERTIFIED are priced on a market basis. Buyers of UTZ coffees pay the produce a separately agreed bonus for the certification. A guaranteed minimum price is always paid for Fairtrade coffees. Producers are also paid a Fairtrade bonus irrespective of the global market price.



Responsibility site

What use is responsibility labelling?

A growing proportion of consumers want to know where and in what conditions the coffee they drink has been produced. This is possible with certified coffee, as the precise monitoring required for certification reveals exactly where the beans are from and how the coffee has been produced.

All certifications involve guidelines for the production of coffee. The instructions cover things like environmental conservation, work safety, the age of the workers, living conditions, pay rates and requirements for workers' rights. The guidelines for different labelling systems differ somewhat in their emphases.

What responsibility-labelled products does Paulig have in its ranges?

UTZ CERTIFIED labels are found on Brazil, Paulig Espresso Originale and Paulig Kenya. Fairtrade and Organic labels are borne by Paulig Mundo, Paulig Mexico and Paulig Colombia as well as the foodservice-oriented Paulig Professional series, which also has KRAV certification.

Why are the most popular coffee blends, like Juhla Mokka and Presidentti, not certified?

Juhla Mokka and Presidentti are heritage-rich products which consumers value for their high quality and excellent flavour. Producing them with certified ingredients would not be possible without altering their quality because there is no sufficient or steady supply of the right kinds of green coffee. Certification is only one way to ensure a product's responsibility.

At Paulig, all green coffee purchases are guided by stringent ethical procedures of which all our coffee suppliers are aware. We work determinedly on the traceability of all the coffee we purchase. Our quality requirements also promote responsibility: we use only high-quality beans for which the grower receives remuneration above the commodity exchange price. We roast our coffee at a modern, energy-efficient roastery.

Will Paulig have more certified products in the future?

There are already several certified products in our range, both for retail sales and for cafés and restaurants. We will expand the product range according to needs, listening to the wishes of our consumers and customers.

How can it be verified that no child labour is used on plantations supplying green coffee?

Certified coffee plantations have committed themselves to compliance with an ILO agreement prohibiting the employment of child labour. The facilities are inspected annually. Paulig procures other coffee from reliable suppliers who have pledged to uphold our ethical purchasing guidelines based on the ILO agreement and to end procurement from plantations where abuses are found. Our buyers visit coffee plantations annually in many countries, but without external audits we cannot entirely exclude employment of minors.

How much does Paulig invest in corporate responsibility matters in a year?

Responsibility is part of our normal business. We do not differentiate responsibility investments.