

A photograph of two burlap sacks filled with coffee beans, set against a background of coffee plants with green leaves. The lighting is natural, highlighting the texture of the sacks and the vibrant colors of the beans.

*Paulig*

**QUALITY FROM BEAN TO CUP**

Corporate responsibility report  
2014

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## Introduction

In 2014, our corporate social responsibility work focused on responsible sourcing, personnel well-being, and environmental issues. We also participated actively in debate concerning the accountability of the food industry both in Finland and across Europe.

Interest in responsible sourcing of food and the transparency of businesses’ operating models continues to grow. The industry is also becoming increasingly strictly regulated. In the midst of changes and increasingly strict requirements, only companies that have genuinely incorporated responsible operating models into their daily activities can succeed.

We introduced our first aluminium-free laminate packages in 2014. We will continue to develop our packages by investing in new packaging machinery in all our production facilities. One of the most important aspects of our corporate social responsibility work is our Sustainable Coffee programme, which extends to 2018 and which is aimed at promoting responsible sourcing of ingredients and sustainable packaging. It is important for us to know where the coffee that we buy comes from and who our coffee suppliers are.

Personnel well-being has always been important to us. According to our most recent TellUs personnel satisfaction survey, we score above the European averages for all key indicators. The results indicate that our systematic investments in improving managerial work and communications, for example, have been worthwhile.

## Editorial

# A responsible operator thrives even amidst changes

Growing interest in the origins of food, its production methods, safety and healthiness, are increasing demands for transparency in the food industry. The food sector is also becoming subject to even more stringent regulation, which requires companies, for example, to adopt ever newer monitoring and reporting systems. A particular challenge to corporate business in recent times has been unexpected and rapid changes in the geopolitical climate and the global economy.

At Paulig, we participate actively in the topical debate on the food sector, bringing to it our personal views and our expertise in the coffee business. Issues of responsibility are strongly to the fore in the European Union. The EU Commission is currently examining, for example, the constitution and impacts of the carbon footprint (Product Environmental Footprint, PEF) in 25 different product categories, one of which is coffee.

Amidst changes and growing demands, only a company which has genuinely internalised responsible procedures in its everyday actions can thrive. When things are essentially on track, it is easier to respond to new requirements. We consider the progress of our responsibility work through five areas of emphasis, embracing the voyage of coffee from the far ends of the earth, all the way from bean to cup. We have devoted effort in particular to responsible procurement, the personnel's wellbeing, and environmental matters. We report on progress in the news on this website and in a yearly report.

An important tool in our responsibility is the Sustainable Coffee programme, which extends to 2018, with which we are promoting the responsibility of the raw materials and packagings used for our products. The aim is, by the end of 2018, to verify responsibility of all our green coffee by a third party. For packaging, we achieved an important stage in 2014 with the launch of the first aluminium-free laminate packages. The upgrading work continues and will require substantial



investments during the years ahead in new packaging machinery for all our production plants. As the packaging machines and packagings are modernised, we will also anticipate future demands for packages, so that the new hardware will serve flexibly and for as long as possible.

The personnel's wellbeing has always been important to our company. I am happy that, as the corporation grows and among the turmoil of change, the personnel see Paulig as an even better workplace than before. The top-notch results of our TellUs personnel survey last year show that our unremitting deployments in improving things like supervisor work and communications have borne fruit. All the benchmarks in the results were above the European averages.

Coffee is a valuable natural product, the availability of which is not self-evident. The future cultivation of coffee is threatened by many factors, the most concrete of which has been seen in recent years as climate change. If there is to be enough coffee in times to come, we have to take action now. It is also important for us to know where the coffee we buy comes from and to know our own coffee suppliers. This is why we visit plantations as much as possible. Since 2001 we have played an active role in the International Coffee Partners (ICP) community, which supports coffee-growers with multi-year development projects. These have been participated in by more than 30,000 farmers in 12 countries. The same community has also established the Coffee & Climate project to support farmers' adaptation to climate change.

*We want to secure the future for good coffee by raising the bar for our responsibility work, one step at a time. The Sustainable Coffee programme is a good start for this.*

Elisa Markula  
Senior Vice President  
Coffee Division, Paulig Group

## Sourcing

# A reliable network of partners builds responsibility

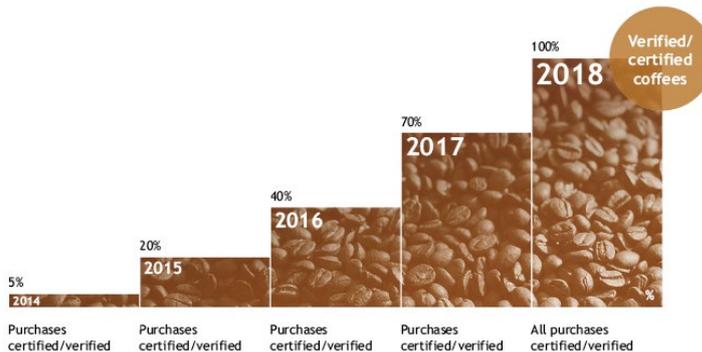
An essential part of Paulig's responsibility involves procurement, which embraces the raw materials, products and services bought in by Paulig. Green coffee constitutes the bulk of procurements; each year Paulig purchases a total of roughly 900,000 bags (60 kg each) of green coffee in different parts of the world.

One of the goals of the Sustainable Coffee programme, which was launched in 2013, is for all of Paulig's purchases of green coffee to be responsibly produced by the end of 2018. In practice, this means focusing purchases on responsibility-certified and verified coffee. The changeover will take place in stages during the period 2015–2018. The aim in the course of the programme is to expand the share of these coffees in procurement in the following steps: 20% (2015), 40% (2016), 70% (2017), 100% (2018). In 2014, roughly 6% of the coffee purchased by Paulig was certified. The certifications we use are Fairtrade, UTZ Certified and Organic. We also use 4C verification in our procurement.

### Traceability creates transparency

Procurement has promoted the traceability of coffee actively for the past ten years in cooperation with coffee suppliers operating in the countries of origin in which Paulig buys green coffee. A traceability study based on samplings of green coffee purchases is carried out at Paulig annually. You can find the latest results here. In almost all of the countries of origin, green coffee can already be traced from the export agency one step closer to the grower, and in some the plantation level is reached. For example, roughly half of the coffee coming from Brazil can already be traced to the plantation where it was grown. In a few countries of origin, including Ethiopia and Kenya, the coffee trade's supply chains

Sustainable coffee program improves responsibility



and customs make it almost impossible to trace back to the plantations. The coffee plantations are small and the coffee is sold on a centralised basis at state-supervised auctions.

Collaboration between Paulig and its partners is long-sighted. A stable chain of partners is also important in promoting practical responsibility work. A large percentage of coffee purchases is made direct from the countries of origin, and the specialists in charge of Paulig's procurement visit these countries regularly. Visits to the coffee plantations and processing plants are an important part of the collaboration and they provide information on operational requirements and operating methods in the countries of origin. This information is utilised in assessing potential output, quality, risks and responsibility. The Paulig Group Code of Conduct for Suppliers (pdf) specifies the principles for responsible operation, and all raw material suppliers are required to comply with these principles in their own operations.



In 2014, procurement focused particularly on responsibility themes by preparing for the implementation of the Sustainable Coffee programme and by participating in the Paulig Group's common Responsible Sourcing project. This was the framework for creating a common procedure for the entire Paulig Group as well as tools to enable the recognition of the social and environmental risks of our supply chain and to tackle problems. The project included, for example, a preliminary risk survey of suppliers and an update to the Paulig Group Code of Conduct for Suppliers. All high-risk suppliers next receive a questionnaire to determine the consistency of the suppliers' responsibility procedures, both within the company and in the sub-procurement chain. The responses are used to determine the necessary follow-up procedures, which include an in-depth questionnaire and various levels of auditing.

In negotiations with suppliers, aspects of responsibility have been clearly made a part of partnership and operational development.

## The price of green coffee continued to fluctuate

The price of green coffee rose sharply in the early months of 2014. The spike in prices was due primarily to severe drought in Brazil's coffee regions. On the New York coffee exchanges, the price peaked at roughly 230 US cents/lb. The rise in the price of raw material was also felt in consumer prices in the late spring. In October, the price of coffee went into a downturn again when the impacts of the Brazilian drought were forecast to be smaller than expected and investors pulled out of the coffee market. In mid-March 2015, the price was 136 US cents/lb.

The price of green coffee has been affected in recent years not only by weather conditions but also by uncertainty in the stock market and by rapid fluctuations in currency exchange rates, last year particularly by the weakening of the euro against the US dollar. Also, changes in developing coffee-producing regions and in new coffee-consuming countries affect demand and supply for green coffee, at the same time influencing the price.



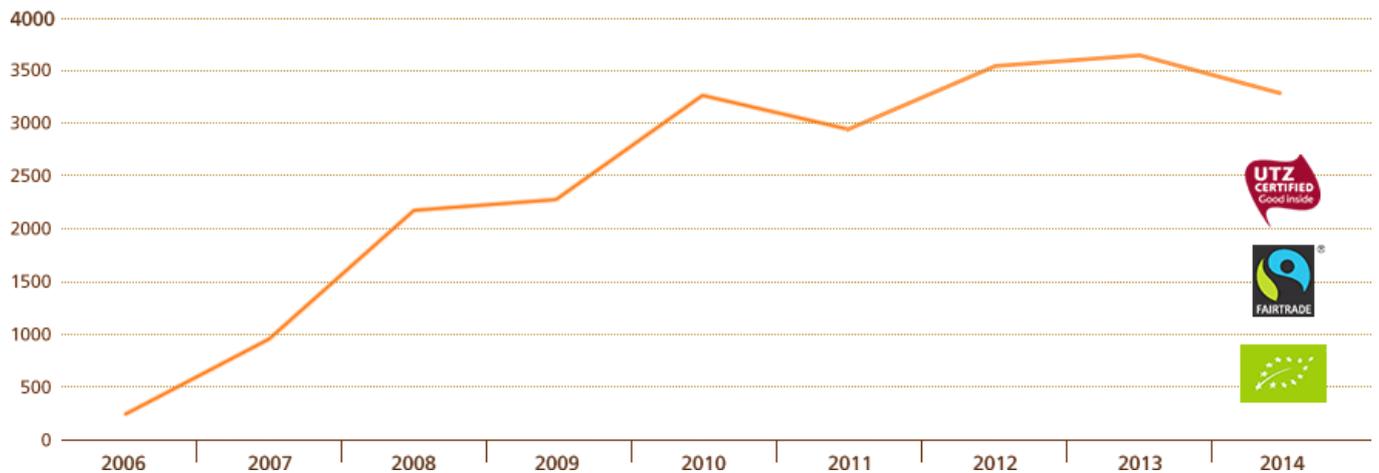
The price trend is also meaningful from the perspective of responsibility. A price level that guarantees profitability gives the grower a better income and facilitates the maintenance and improvement of the plantation and its future prospects. This is important for the availability and quality of green coffee, also in the future. Most of the world's coffee plantations are very small, averaging less than two hectares, and the threshold for growers to switch to alternative, more profitable crops may be lowered if the price obtained for coffee is not attractive.

The profitability of coffee cultivation and the growers' everyday lives are also increasingly affected by climate change. In order to manage the impacts, Paulig takes part in the international Coffee & Climate programme, among others. This provides growers with practical advice and tools for preventing things like soil desiccation and flood damage.

## Figures and results of our work

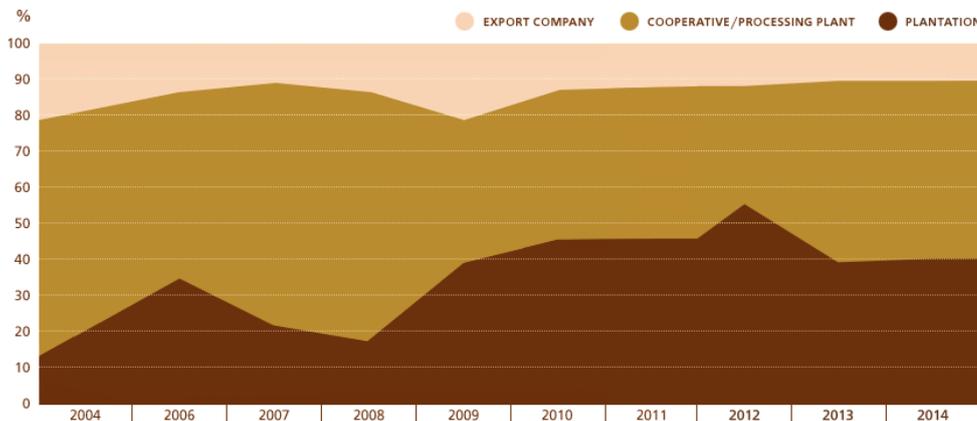
### Paulig's purchases of certified coffee grades (tonnes)

Responsibility-labelled green coffee accounts for some 10-15 % 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 2014, roughly 6 % 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 2013, 100% could be traced back to the exporters in the countries of origin, 89 % to the co-ops and processing plants, and 39 % to the coffee plantations or plantations cooperatives.



In the harvest season of 2014, the world output of coffee was

# 8 496 000

tonnes or 141,6 million bags (60 kg) of coffee.



For comparison: Laid end to end, the coffee bags would stretch almost twice around the world.

## Personnel

# The Paulig family grows and harmonises



In promoting personnel responsibility, Paulig has three main thrusts: improvement of supervisor work, expanding every Paulig employee's coffee expertise, and operational harmonisation to boost efficiency and to cultivate unity in the business units and throughout the Paulig Group.

The number of personnel grew in the early months of 2014, particularly in Finland. Robert Paulig Roastery was acquired in May and company's nine employees were transferred with their current terms and conditions to Paulig. By means of a corporate acquisition effected at the end of the previous year Vendor became an integral part of Gustav Paulig and the company's 90 personnel became Paulig employees. In the merger, particular attention was paid to the personnel so that the companies' culture, values and procedures would genuinely blend. The essential points in this were both for the new employees to settle in and to prepare those already working in the company for the new situation. In the consultative talks held during the merger stage, job descriptions and expertise were considered as well as how these were distributed and duplicated efforts. As a result of the negotiations, five employment contracts in Finland were terminated.

### Good results in the personnel survey

The TellUs personnel survey carried out every two years in the Paulig Group was implemented for the third time in autumn 2014. The Coffee Division's results were better than in previous surveys and rose above the average for companies in Europe by all key benchmarks. The main differences relative to the average are in leadership culture, supervisor work, job motivation, and flexibility and efficiency. The response rate, at over 90, was also markedly above the average for European companies (67%) and shows that the personnel feel that responding is meaningful. The results show that long-term development work is worthwhile also in challenges related to change.

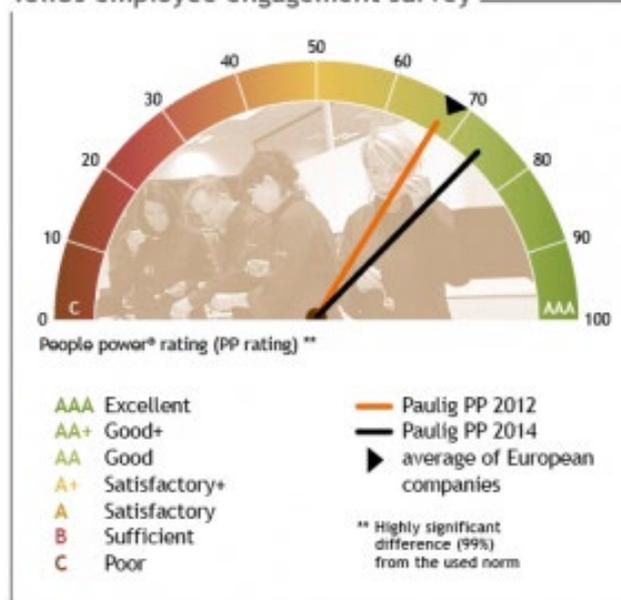
### Leadership development in full swing

The backdrop to this favourable trend is six years of determined development of personnel work as well as leadership and supervisor work. A total of 105 people work in supervisory roles in the Coffee Division, 46 of them in Finland. Their expertise is seen as a key strategic factor in the success of the entire organisation, and high requirements are also set for supervisor work. The good results of the latest TellUs personnel survey confirm this view and inspire continued development work. Also, the 3D target and development interviews model\* has become established and all white-collar employees of the Coffee Division took part in it last year. The process was completed for the third time and with good results. Performance assessment is more capable than previously, and the assessment process is seen as a natural part of the job and of the annual routines for expertise development. During the interviews, agreement is made on personal targets, the result achieved are noted, and needs for improvement are outlined.  
\*3D=3 dialogues

### Coffee expertise belongs to everyone

The Paulig Coffee Academy, which was founded in 2013, was brought up to a good speed last year. The objective of the in-house training programme is to ensure that all Paulig employees are experts in the world of coffee irrespective of their roles. Coffee involves a great deal of specialist expertise which cannot be studied anywhere else, and this is why learning on the job is crucially important. As envoys of excellent coffee, Paulig employees have to know the story of coffee, its attributes and special features, and every stage of the coffee chain. They also anticipate and monitor coffee trends and current affairs related to

TellUs employee engagement survey



## Occupational health and safety requires constant vigilance

Paulig's occupational health and safety affairs comply with the OHSAS 18001 standard. The system in Vuosaari has been certified previously and it was updated last year. The roastery in Tver was certified in autumn 2014.

The situation for occupational health and safety continued to be good compared with the overall standard in the food industry, although the number of job-related accidents rose relative to the previous year. In Finland in 2014, there were in all five occupational accidents leading to sick leave, one of which was at the Vuosaari site and four were on business in the field. Particular attention is now being focused on the occupational safety of Paulig employees working on field duties. There were no occupational accidents in Russia and Baltic's.

The like-for-like figure derived from occupational accidents was 9.4 in Vuosaari. The corresponding figure for the food industry as a whole was 40 in 2013 according to the Centre for Occupational Safety. (LTIF: workplace accidents resulting in at least one day of incapacitation per million working hours done).

The sickness absence rate for Finnish operation rose from 2.2 to 3.2 per cent, which is a marked turnaround after a prolonged

downward trend. Prevention plays a central part in occupational healthcare, so the reasons for the change were scrutinised carefully. According to the survey, the increase in absenteeism was due to a few exceptionally long periods of sick leave. In Russia, the sickness absenteeism rate was 3.3 per cent and 1.6 per cent in Baltic's.

## Prevention and early intervention

In the prevention of occupational accidents, the active role of the personnel is crucial in detecting shortcomings in safety. The personnel are encouraged to be active in reporting their observations, and all observations are recorded in a common system.

In Paulig Professional's operations, fieldwork plays an essential part. Last year, special attention was paid to the occupational health of people working in the field and, for example, job ergonomic risks were charted and related training was arranged for this.

Supervisors are encouraged to be vigilant for signs that jeopardise working capacity and to act in accordance with the early intervention model. Paulig has its own occupational health committee, which facilitates close and effective job wellness enhancement.



## Investment in supervisor work pays off

15.4.2015

During the past six years, the Coffee Division has resolutely built a new leadership model.

At Paulig, an exceptional amount of effort is deployed in developing leadership and supervisor work. During the past six years, the Coffee Division has resolutely built a new leadership model in which a coaching approach plays a central part. In the beginning, it was defined what good leadership is at Paulig, the supervisor's role was clarified, and tools and means for leadership were created. A change in ways of doing things demands not only time but also a change in attitudes and courage.

"It now seems that we've achieved a certain breakthrough in these questions. Personnel matters are not exclusively HR's turf,

they concern all supervisors. We provide supervisors with a leadership model and tools, a lot of training, and we act as sparring partners for them in all kinds of situations," says HR Director Tanya Strohmayer. "It's immensely important for supervisors at all levels of the organisation to be able to analyse their own actions and to understand the weighting of an example in every situation."

"A supervisor's work is really demanding. Traditionally the job is seen as promotion and an achievement in which a proven expert is appointed. In fact, you can get by and thrive as a supervisor only if you were made for the role and if you enjoy directing cases and people, as it can very challenging and pressured work at times. You have to assess suitability for this honestly. Deep expertise is irreplaceably valuable and other paths for its advance must be created within the organisation, not just the supervisor's role," Tanya Strohmayer points out.

## **N-house occupational healthcare knows the company, the work and the people**

15.4.2015

Paulig is one of the few Finnish companies with its own occupational healthcare.

Paulig is one of the few Finnish companies with its own occupational healthcare. This practice dates back decades, when the plant had its own in-house nurse. Instead of adopting the modern trend of outsourcing, a decision was made at Paulig to continue to have occupational healthcare in-house for the future.

"I'm truly happy about this decision. It reflects the values and culture of a family company, and also that the welfare of the employees is genuinely important to the owners. Our history includes many other examples of this; one is that, during the war, employees serving on the frontline were paid the normal salary," explains Occupational Health Nurse Ulla-Maija Pessa. 'Ullis', who is a familiar figure to everyone at Paulig, recently retired after serving at Paulig as occupational health nurse for almost a quarter of a century.

### **Help close at hand in all circumstances**

Paulig's Vuosaari roastery has its own occupational health clinic, where small medical procedures can be performed. An occupational health nurse is on duty daily and a doctor is present two days a week. In addition to statutory preventive occupational healthcare, employees are provided with comprehensive treatment as well as, if necessary, consultation and tests with a specialist physician. Paulig employees at the Tver roastery in Russia are also provided with comprehensive occupational healthcare and medical services in local health centres and hospitals.

"Having our own occupational health clinic is a good thing also for practical reasons. You can get to reception quickly during work, which lowers the threshold for seeking treatment in time. This means small ailments get treated before they can blow up into something bigger. Similarly, in various crises like epidemics or work accidents, help is always at hand," Ulla-Maija tells us.

Ulla-Maija sees it as a particularly big advantage that in-house occupational healthcare genuinely knows the company, the work and the people. "It's easier to talk to a nurse you know and we've also had the same doctor for more than ten years. We can understand on a completely different level the kind of factors that may be behind symptoms because we know the demands and content of the work done here so well."

### **Work changes, occupational healthcare keeps up**

Ulla-Maija has watched a revolution in working life from the welfare perspective and she has been with Paulig in times of dynamic growth and internationalisation.

"Both in manufacturing and office work, the job has changed. There is less heavy, repetitive, physical work in the plant and ergonomics have improved. It used to be the practice to sit in an office from eight till four, but today the job goes with you and work is done in different places and working days are different. The changes also bring challenges, one of which is balancing work with the rest of life. It can be harder to get away from the job and it can gobble up too big a piece of your life."



Retaining job fitness and recognising threats to it are among the core missions of occupational healthcare. Having occupational healthcare in-house makes it possible to find solutions more flexibly and faster in difficult situations or when sickness strikes. "Working capability isn't on-off any more, various options are looked at where work can be done at least part of the time. It isn't easy to replace expertise, and various flexible arrangements are in everybody's interest. Then we can consider together with the employee and the supervisor how the job can be changed. Work is a factor in promoting health, not only for the person themselves but also for the company and the whole of society," Ulla-Maija points out.

### **Listen to yourself**

Increasing awareness of health issues in recent years has brought with it a lot of good, according to Ulla-Maija. "There's a lot less smoking, and also alcohol consumption is down, particularly among young people and in working life. I believe that workplaces' responsible personnel policies have had an important role in this. There's also more awareness of the importance of nutrition and exercise, and most people try to take care of themselves. However, overweight and the problems this causes are still a curse for us Finns."

Ulla-Maija points out that it's good to listen to your own body and the way you feel. "A person is always the best expert about themselves and their health – if you feel something's not normal, there's reason to find out what it is. Attitude is also an important part of wellbeing, noticing the good things at work and in the rest of your life gets you through difficult stages."

And what will the occupational health nurse do after retirement? "Lots of people have asked that and the answer is that I have no bigger plans. I'll leave doors open and see what life brings," Ulla-Maija says with a smile.

## Figures and results of our work

### Coffee Division personnel figures, 31.12.2014\*

	Finland	Russia	Estonia	Latvia	Lithuania	Sweden	Norway	Poland	Total
Toimihenkilöt	207	105	53	16	22	20	10	6	439
Työntekijät	88	37	0	1	0	0	0	0	126
Yhteensä	295	142	53	17	22	20	10	6	565

\* Number of people in active employment. In addition, in inactive employment (e.g., job alternation leave, parent's leave) there were 21 people in Finland, Russia, Estonia and Sweden.

#### Finnish personnel

- Women 45% and men 55%
- Permanent posts 286
- Average period of employment 11.6 years
- Personnel's average age 42 years
- 3 employees took retirement
- Roastery employees' unionisation rate approx. 85%
- In addition, the Vuosaari facility had roughly 40 employees of external service providers, including in the personnel restaurant, guard duties and warehouse services..

#### Baltic personnel

- Women 33% and men 67%
- Permanent posts 89
- Average period of employment 4.71 years
- Personnel's average age 34 years
- No employees took retirement

#### Russian personnel

- Women 38% and men 62%
- Permanent posts 147
- Average period of employment 2.8 years
- Personnel's average age 33.8 years
- No employees took retirement

## Trend in occupational health indicators at Vuosaari roastery\*

In 2013, the accident frequency rate was 5, compared with the 2012 figure of about 43 for the food industry as a whole and about 31 for all sectors. (Source: TTK)

	2009	2010	2011	2012	2013	2014
Number of accidents*	3	5	7	1	2	5
Accident frequency**	11	14	19	3	5	9,4
Sickness absenteeism percentage	2,3	2,3	2,6	2,6	2,2	3,2

## Trend in occupational health indicators in Russia and the Baltic\*

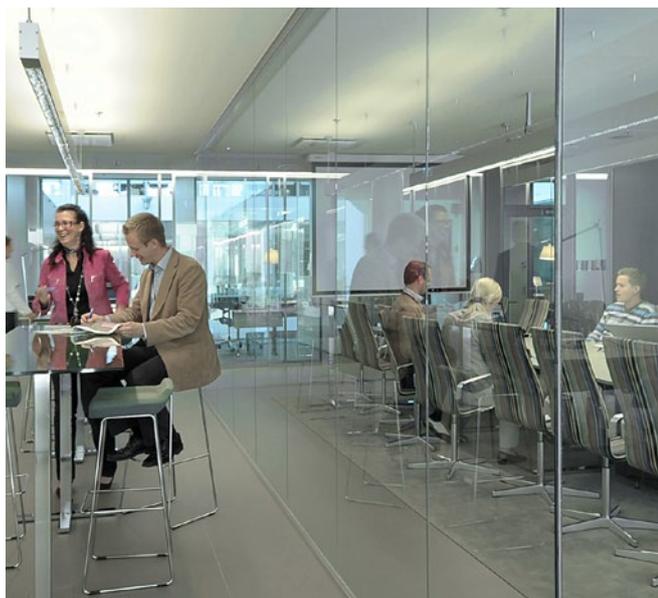
	RUSSIA		BALTIC
	2013	2014	2014
Number of accidents*	0	0	0
Accident frequency**	0	0	0
Sickness absenteeism percentage	1,8	3,3	1,6

\*Number of accidents LTI 1. Number of accidents leading to at least one day's absence excluding commuting accidents.

\*\*Accident frequency LTIF. Number of accidents leading to at least one day's absence per million working hours performed.

## Business

# A year of unexpected events also impacted the world of coffee



In 2014, the business of Paulig\*, like that of many other companies, was affected by a number of unanticipated factors. Geopolitical tension, the Ukrainian crisis, combined with rapid fluctuations in the exchange rates of the main currencies for Paulig - the euro, the rouble and the dollar - stirred disruption and uncertainty in the business climate. Also, the price of green coffee went into a strong upswing at the beginning of the year as a result of the drought afflicting the harvest in Brazil. In spite of the challenges, the targeted results were achieved.

\*Coffee Division of Paulig Group

### A busy time in the coffee market

Paulig's market position has taken a favourable trend in different countries. On stable markets such as Finland and Estonia, Paulig is the market leader, as it is also in Lithuania. In Finland the competitive scenario has picked up momentum, and new coffee products and services are enlivening the market. In Russia, Paulig's market share also held steady; in terms of sales value Paulig is market leader for roasted coffees and for sales quantity it is in second place. In Latvia, Paulig's recognition factor was boosted strongly by an expansion in TV marketing efforts and through active in-store marketing. The expansion of operations into Poland was abandoned. Competition is heavy in the national coffee market and the consumer price for coffee is very low.

In Tver, Russia, Paulig's roastery operations have stabilised. Paulig is an important employer and taxpayer in the area. Thanks to an efficient team, operations at the roastery have been brought into line with Paulig's quality requirements in a short time, and last year the roastery was also granted OHSAS 18001 occupational

health and safety certification. The crisis in Ukraine has also impacted Paulig's operations. In Russia, consumers' purchasing power has declined due to the depreciation of the rouble, and the manufacture of products for export to Ukraine was moved from Tver to the Vuosaari roastery. On the other hand, because of the local production plant, sanctions or import bans between Russia and Western countries had no effect on business. Developments of the situation in the region are being monitored closely.

### Corporate acquisitions diversified the service offering

The merger at the end of 2013 in which Vendor was merged with Paulig has boosted the development of the out-of-home business sector. The merger applied to operations in Finland and the Baltic countries. Paulig's aim is to grow dynamically as a provider of coffee services and the new business unit formed for this purpose, Paulig Professional, has got off to a rapid start.

Small roasteries have become a phenomenon in many European countries and the USA. In Germany, for example, there are hundreds of small roasteries, with a combined market share of roughly five per cent. This rising trend is also appearing in Finland, and in May 2014 Gustav Paulig Ltd acquired the business interests of the Robert Paulig small roastery together with the Robert Paulig coffee brands. Operations continue in the subsidiary Robert Paulig Roastery Ltd, and the products retain the Robert Paulig brand. The transaction had no effect on the personnel. The Robert's Coffee café operations were not included in the deal.

### Harmonisation fosters efficiency

Paulig Group aims to harmonise and streamline its operations among the various divisions. There are several projects under way in the spheres of HR, ITC and procurement, and the Coffee Division is actively involved in these. Responsibility work will also be guided in the future by Paulig Group's common framework and programme for responsibility.

Paulig is renowned in Finland as a corporate trailblazer in responsible business. In an annual survey of companies' reputations and corporate responsibility (TNS Gallup), Paulig took first place last year in the section for food industry companies. Paulig placed second overall in the survey. Active participation in societal development is visible in small and large actions. For example, last year Paulig took up the Emergency Coffee Challenge (Hätäkahvit) in Finland, started in the social media by young mothers. During the summer, the Paulig Group made a sizable donation of 1.5 million euros to the New Children's Hospital project.

## Figures and results of our work

### The price trend for green coffee on the New York coffee exchange

The price of arabica coffees, which are what is mostly used in Finland, is determined on the New York exchange. The price is quoted in dollar cents (USD) per pound (454 g). Paulig annually purchases some 0.7% of the global green coffee output, in all roughly 60 million kilos.



### Volume of coffee production (t)

# 46 563

Tonnes of coffee completed at the Vuosaari and Tver roasteries in 2014



### Financial responsibility figures (EUR 1 000)

Financial year	2010	2011	2012	2013	2014
Net sales	261 540	332 918	297 876	267 815	280 953
Wages and salaries, indirect costs and prerequisites	13 304	13 288	12 884	13 657	17 444
Purchasing costs of ingredients and materials	187 304	247 388	189 823	144 791	186 507
Interest and other financial income	110	480	241	168	269
Interest and other financial expenditure	2 794	2 398	872	249	819
Investments	6 407	1 832	1 442	8 175	3 997

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

## Environment

# Doing small and big things for the environment



The aim at Paulig's modern roasteries is contently to improve operational environmental friendliness. The roastery in Vuosaari completed its fourth full year of operation and the Tver plant completed its third. By fine-tuning the building's functions and the production processes, we were able to further optimise energy use. In environmental matters, the aim is also harmonisation throughout the Paulig Group. We seek to deploy common main benchmarks for monitoring environmental impacts in all Group units over the next few years.

### Considerable reduction in consumption of packaging materials

At Paulig, the environmental impacts of packages are reduced in three different ways: reducing the quantity of material used, the greenhouse gases from package production, and the use of non-renewable natural resources.

Great progress was achieved in this work in 2014, as over 96,000 kg less packaging material was used in Vuosaari than in 2013, and Paulig sent out the first coffee in totally aluminium-free laminate packages.

### Energy consumption and wastes closely monitored

In 2014, state-owned organisation Motiva, which encourages companies to greater energy and material efficiency, carried out an energy survey at the Vuosaari roastery. This showed that energy efficiency has been factored in at the roastery very successfully. The hardware is modern and the personnel's awareness of the subject is at a high level. There were also opportunities for improvements found, such as more precise control of the ventilation running times and loadings, and the recovery of energy from exhaust gases could be made more efficient.

Energy and water consumption at the roasteries is monitored closely. The roasteries' electricity consumption last year held steady at the previous level, at Vuosaari consumption grew slightly, 1.3% per tonne of output. The combined energy consumption at Vuosaari (electricity, natural gas, district heating) was down by 3% on the previous year, however. natural gas consumption declined by 5.6% and district heating by 8.2%. These figures were calculated per tonne of coffee produced. The savings were generated by optimisation of the production process and building automation.

Water consumption is small in the roastery's manufacturing. In 2014, the water consumed at Vuosaari was 0.21 m<sup>3</sup> per tonne of coffee produced, and in Tver it was 0.16 m<sup>3</sup>. In the future, the aim is to differentiate more effectively the water consumption arising from manufacturing and office work so that action to reduce consumption can be targeted more efficiently on the right things.

Quantities of waste have been systematically monitored at Paulig since 2002. The objective is for all wastes to be reutilised as material or energy. In the course of the past five years, the total quantity of waste at Vuosaari has been halved in practice, and no mixed waste is produced any longer at all. In 2014, the quantity of energy waste was reduced by 6.5 per cent and the overall waste quantity by 6.4% on the previous year.

The total quantity of organic waste declined at Vuosaari by 6.7%. The majority of organic waste is comprised of coffee wastage formed during production. The reduction in organic waste is accounted for by better possibilities for the recycling of coffee wastage.

It is also intended to reduce the quantity of mixed and organic waste in Tver and to increase the proportion of wastes being recycled. During 2014, the quantity of mixed waste declined in Tver by 15% per tonne of output relative to the previous year, and organic waste was reduced correspondingly by 6%.

## Aluminium-free coffee packages for the world

The packaging material upgrade will demand active product development and careful planning.

In the Sustainable Coffee programme launched in 2013, Paulig committed itself to enhancing the responsibility of green coffee and packagings. In autumn 2014, the Vuosaari roastery started up two new packaging lines which enabled the use of more environmental friendly packaging materials.

“This step is a part of our broad responsibility programme extending to 2018, in which will we update all of our packagings. Our aim is to reduce use of all packaging materials and to increase use of renewable raw materials. We expect these actions will bring about savings in the greenhouse gas emissions from packagings and a considerable reduction in the environmental impacts of our packages,” Senior Sourcing Manager Kai Eira reports.

The packaging material upgrade will demand active product development and careful planning. “Aluminium makes the laminate packages oxygen-tight, and it makes the material mouldable and easy to transport on the lines. When we give

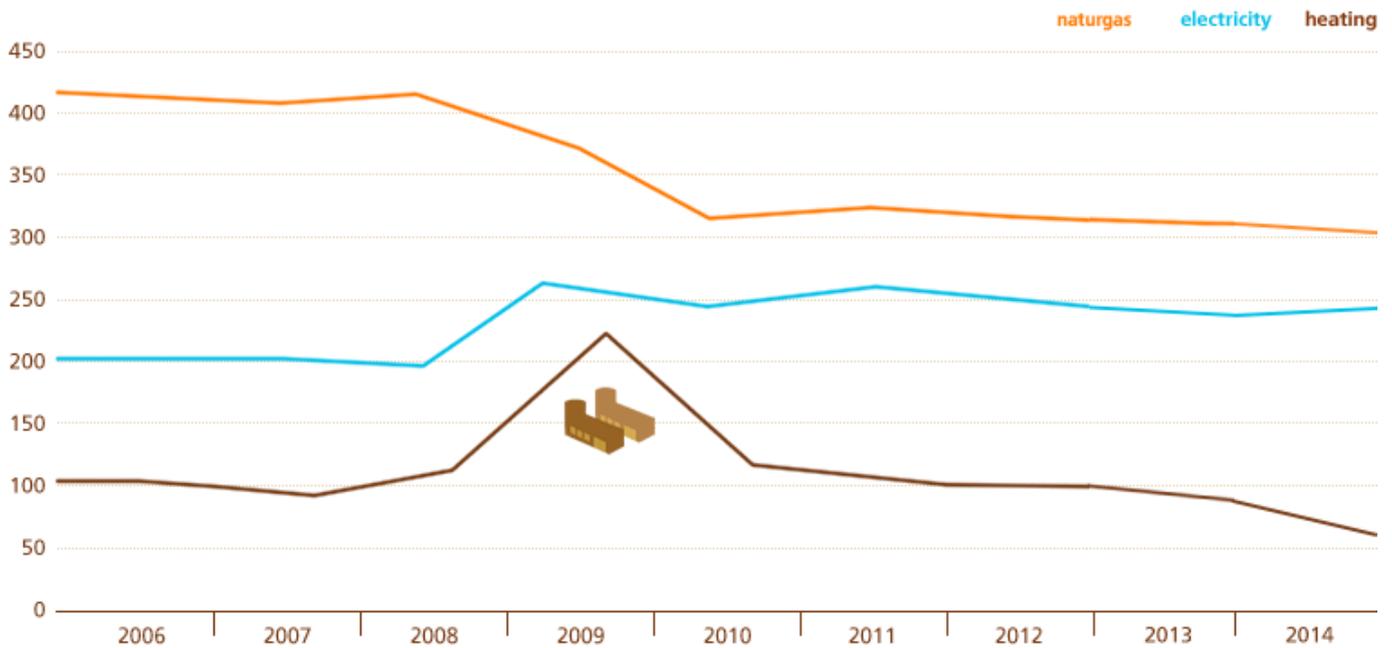
up aluminium, these issues and others will have to be resolved, and we will have to invest in new machinery. In 2014, we totally revamped the packaging for tens of products, also in their appearance and form. Careful planning yields results, because the savings in materials were considerable once again; last year already, we used over 96,000 kg less packaging material than the year before,” says Kai Eira.

The world of packaging has entered a new age for many reasons. Environmental awareness, reforms of waste laws, and producer liability, combined with innovations, are taking the packaging industry ahead at high speed. “We are watching the development of biodegradable packagings with particular interest, and we have also conducted tests with them. At the moment, their manufacture uses valuable raw materials from the food chain, such as maize, potatoes or sugar cane, but we also see potential for biodegradable materials as cellulose fibre-based alternatives are developed,” Kai Eira delineates.



## Figures and results of our work

### Annual energy consumption per tonne of output in Vuosaari (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 2014 Paulig used

**96 000 kg**

less packaging materials than previous year



The combined mass of the material saved is the equivalent of roughly 90 cars.

## Annual energy consumption in Tver roastery

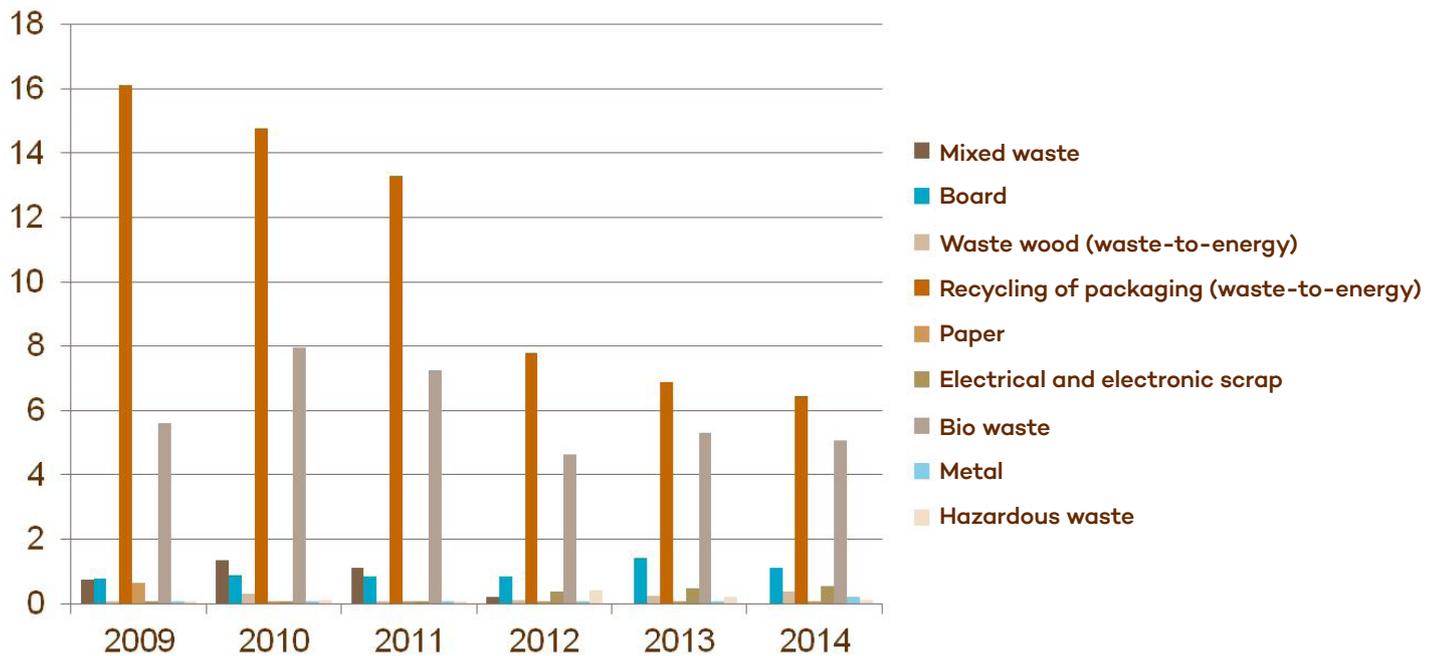
	2013	2014
Natural gas kWh/t	410	440
Electricity kWh/t	190	230

## Quantity of waste in Tver roastery

Mixed waste m <sup>3</sup> /t	0,33 m <sup>3</sup> /t
Reused packaging (energy waste) kg/t	7,76 kg/t
Organic waste kg/t	20,34 kg/t

## Annual quantity of waste per tonne of output (kg/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

# Responsibility and origin are interesting – consumption habits are slow to change

Consumers' interest in corporate responsibility, the origin of products, product safety and production methods, has grown markedly in recent years. Young people in particular are active in seeking information on these subjects. However, these changes are slow to affect real consumption habits and, for example, consumption of certified coffee has remained modest.

Consumers consider Paulig to be one of Finland's most responsible companies. In an annual survey of companies' reputations and corporate responsibility (TNS Gallup), Paulig took first place last year in the section for food industry companies. Paulig placed second overall in the survey.

According to the results of a survey of stakeholders carried out at the turn of the year 2013-2014, consumers want more information from Paulig about such things as conditions for coffee producers and conditions in the countries of origin. Paulig has been active in developing its communications and opportunities for interaction with consumers, especially in the channels of the social media. Paulig wants to inspire its employees to talk about their work

and their subjects of interest in various channels, and training sessions to support this were held last year. Coffee purchasers have talked about their procurement missions, both on websites and on Instagram. The social media are also in use for recruiting new employees for teams, and for instance fashion bloggers in social media were invited to take part in updating Paula's costume.

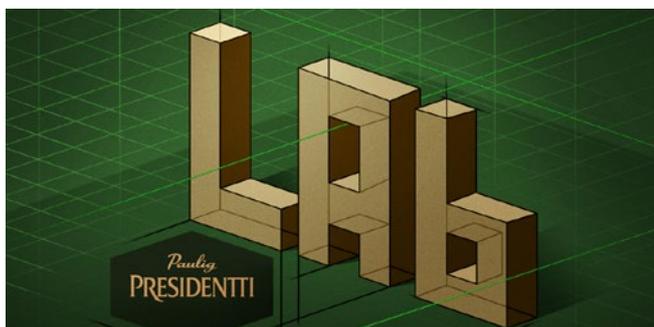
### Challenging targets for responsibility

As a trusted brand firm, we want to constantly enhance the responsibility of our products. The aim of the Sustainable Coffee responsibility programme started at Paulig in 2013 is for all of Paulig's procurements of both green coffee and packagings to meet the responsibility criteria set for them by the end of 2018. An important stage was achieved as part of the programme when all the Paulig Professional coffees intended for professional use as well as part of the retail-trade coffee products can now be delivered in aluminium-free laminate packages. Thinner materials reduce the amount of waste going to landfill, and aluminium-free packages can be disposed of as energy waste. This has been an important wish from customers and consumers, and the first steps have now been taken towards realising it. All of Paulig's packages will be made aluminium-free in stages.

### A year of celebrations

In 2014, Paulig's prestigious coffee brands Juhla Mokka and Paulig Presidentti both reached the age of 85 years. Juhla Mokka invited coffee-lovers to take part in the anniversary in many ways. In the Back to the Moments photography campaign, internationally high-profile photographer Irina Werning visited Finland and inspired Finns to revisit their photographic moments from years past. Also, the Provincial Flavour Partners tour and Coffee Bee inspired coffee-lovers to take part in the jubilee year. Presidentti celebrated the anniversary on the LAB coffee channel and by launching the third blend in the vintage coffee series, Presidentti Special Blend 2014, a limited edition of which hit the shops in May.

Things are also moving in other product categories. Cupsolo got five new flavours and the coffee capsule set was augmented with the Cupsolo Lattensia appliance. Another coffee-lovers' wish was granted when lactose-free Frezza Forte hit the shops. In Russia, the Paulig Arabica and Paulig Extra product families were given new package sizes. The packaging for Paulig Mokka was also updated. On the out-of-home coffee front, the new items in 2014 were Fazer Blend, Traditional Espresso and Selected Vending coffee. No new certified products were launched during the past year.



The growing trend for small roasteries was responded to in 2014 by the acquisition of the Robert Paulig small roastery and Robert Paulig coffee brands.

Paulig listens actively to consumers' wishes through regular surveys, testing, the consumer service, and through the social media channels, as well as closely monitoring the trend for different product brands. The Paulig brands' recognition profile stayed strong in the main markets, rising sharply in Latvia. With an eye to young people's wishes in particular, a revamp of the Brazil blend was initiated, and to provide a basis for this broad-based consumer surveys and flavour tests were carried out. The updated Brazil was launched in spring 2015.

## Consumers interested in environmental aspects of packaging

Responsibility-related themes became one of the most frequent lines of enquiries for Paulig's consumer service in 2014. Questions particularly focused on disposal and recycling of coffee packages. In addition to phone service, consumer service has increasingly in recent years also gone over to the social media, where questions and answers are available to a considerably wider audience. In 2014, another new channel was adopted, the customer service blog. Blog articles cover questions that exercise consumers, often anticipating them.

In 2014, consumer service in Finland received a total of 4,896 enquiries. In Russia, there were 1,007 enquiries, a considerable increase on the previous year. Most contacts were by phone but use of the social media channels has increased also in Russia.

The Vuosaari roastery was visited by a total of 19 groups of consumers. On addition to these, groups of customers and partners were given tours of the premises.

## Product safety

In 2014, the ISO 22000 product safety management system at the Vuosaari and Tver roasteries was replaced with the more comprehensive FSSC 22000 system, which also received certification.

A total of 1,947 communications concerning coffee products were received. Of these, 656 were examined in the coffee laboratory and in production. The number of product complaints concerning roasted coffee was 14 per million kilos of coffee in Vuosaari and 3.7 in Tver. The number of complaints were down on the previous year, and the improvement was particularly striking in Tver (11.6 in 2013).



## The best coffee experiences are created together

15.4.2015

Many successes are needed for a coffee experience

For more than a year, Paulig Professional has been working systematically on an upgraded way to collaborate with customers in Finland. Many existing good practices have been refined and they are being collected into a new model for Paulig's customer work. Out-of-home coffee services for the Horeca and office sector are being enhanced to meet the customer's expectations.

"It's about developing both the philosophy and business procedures. The heart of everything is the customer's expectations and understanding the business, as well as the jointly set objectives we aim for. This generates a real partnership that benefits both parties," says Director Lenita Ingelin of Paulig Professional.

A long-time customer, Kespro Oy's Sales Director Osmo Pyhtinen, is on the same wavelength. Paulig's coffees are popular in the cafés of Kespro's customers and other business locations throughout the country. "The basics, meaning the price, range and reliable delivery always have to be right. But, in addition to these, we want a supplier with whom we can together develop the entire market and offer new solutions onwards for our own customers. In this, we appreciate a partner who is able to enrich our knowledge and understanding of the sector, coffee trends and new alternatives."

A new kind of partnership requires a deeper exploration of the customer's business environment and challenges. "We have listened to our customers and collected information, both through discussions and with various kinds of surveys. We really want to understand our customers' business and needs. Moreover, we have rolled out tools for measuring customer satisfaction both continuously and in individual circumstances – also when we have not succeeded. You learn especially much from those," Ingelin says.

### A harmonised operating model – a tailored toolset

According to Lenita Ingelin, one of Paulig's values, Grow together, is manifested in the development of customer work. "Together with the team, we've identified and selected the best practices and refined them into a standardised model and benchmarks for our customer work. However, standardisation does not mean inflexibility. When we understand our customer's business, we can tailor precisely the right solution for it," Ingelin notes.

Kespro also appreciates the ability to customise products and services, even if large volumes are concerned. "The important question is, will we find small, easily implementable concepts to expand the offering in the field. For example, many of our customers now want to differentiate and serve their own roast blends or coffees with a particular certification. The philosophy of responsibility, combined with the popularity of special coffees and small roasteries mean that the trend of individuality will continue to grow. Paulig has been able to respond to the challenge," Osmo Pyhtinen reports.



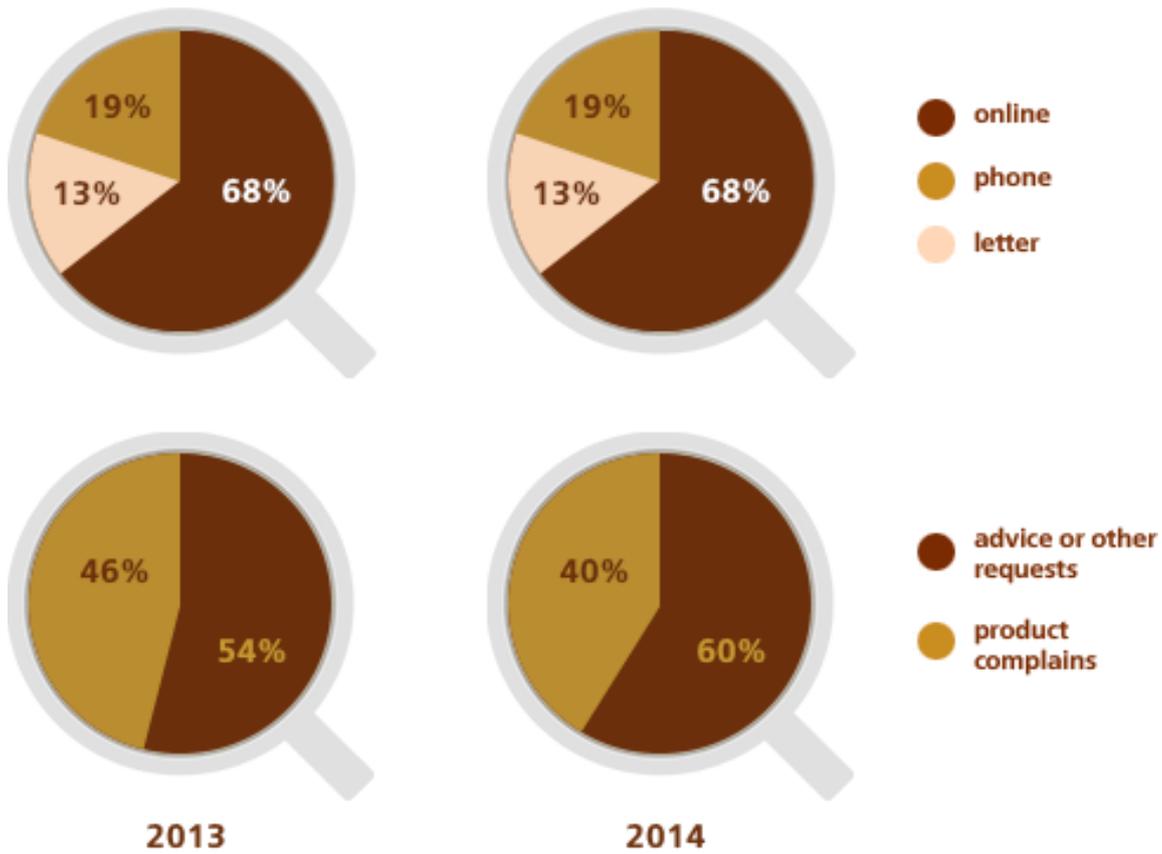
### Many successes are needed for a coffee experience

Before the perfect coffee is in the consumer's cup, it has travelled a long way and through many hands. "A coffee experience is made up of many things. It needs quality raw materials, a professional roasting, proper storage and equipment, and skilled brewing and presentation. The experience is also promoted by the knowledge that responsibility aspects have been figured in: the raw materials' traceability, the conditions in which the coffee was produced, and the environmental friendliness of the packaging materials are important to customers and consumers alike. Our job is to help our customers in providing the most excellent and high-quality coffee experience," Lenita Ingelin says.

The enhancement of Paulig's customer work has been noticed with satisfaction at Kespro. "They have the right attitude and the willingness to work for the advantage of both business is genuine. Our partnership has definitely deepened, and readiness to listen to the customer has improved markedly," Pyhtinen observes.

## Figures and results of our work

### Enquiries received by consumer service 2014



## Targets and results of responsibility work

We set annual targets for responsibility work. This table shows our targets for 2014 and how they were attained as well as the targets set for 2015.

**Our target:**

**Motivated, committed and wellbeing personnel**

Targets and results 2014	Result	Targets 2015
<b>Good leadership</b>		
TellUS People Power Index at least at the European Average. Survey is made every second year. Result: People Power index 73.4 exceeded the European average 68.7.	●	TellUS People Power Index over the European average.
Leadership Survey target score over 3 (scale 1-4) Result: 3.1	●	Leadership Survey target score 3.2.
<b>Competence and professional development</b>		
100% of permanent employees have undergone the entire 3D process (targets, development plan and performance appraisal).	●	100% of permanent employees have undergone the entire 3D process (targets, development plan and performance appraisal) in given schedule.
<b>A safe and healthy work environment</b>		
Continuous improvement ja keeping the occupational health and safety certifications. Result: certified occupational health and safety certifications in Vuosaari and Tver (OHSAS 18001)	●	Including safety observations to the new initiative process.
Keep number of absences due to work accidents at a very low level. Results: Vuosaari 7, Tver zero accidents.	●	Preventing work accidents and absence from work due to them (participation to the 0-Work Accidents Forums level classification).
Raising awareness of early intervention model and further lowering the bar of using it. Result: Training concerning wellbeing at work was arranged to the supervisors.	●	Continuously improving wellbeing at work and strengthening the role of supervisors in the early intervention model.

**Our target:**

## All sourcing at Paulig is responsible

Targets and results 2014	Result	Targets 2015
<b>Traceability of all coffee 100 % by the end of 2018</b>		
Traceability of coffee purchases to 62% of plantations and 100% of co-operatives. Result: Figures in the 2014 survey were 40% and 89%.		Traceability of coffee purchases to 60% of plantations and 95% to co-operatives.
Systematic increase of certified and 4C coffee used in Paulig products. Taking these use in chosen products. Result: 6% of all green coffee used was certified/verified.		20% of all green coffee used is certified/verified.
<b>Development of responsible sourcing practices</b>		
Coffee division is participating a Paulig Group project, which aims to develop framework and tools for responsible sourcing practices and tools. Result: A common model and tools for responsible sourcing were created 2014 in Paulig Group, e.g. new Code of Conduct for Suppliers and Supplier Questionnaires.		Coffee division continues to implement the new practices and participates actively to the further development of Paulig Group processes and tools (responsible sourcing project 2).

**Our target:**

## We reduce the environmental impact in our own operations and throughout the supply chain

Targets and results 2014	Result	Targets 2015
<b>Saving energy</b>		
5 % decline in electricity consumption per coffee production tonn by improving the process and building automation. Result: The consumption of electricity increased 1,4% per ton of coffee, but total energy consumption (electricity, natural gas, district heating) decreased 3.0 % per ton.		5 % decline in total energy consumption per ton of coffee produced compared with 2014 level (Vuosaari and Tver).
<b>Reducing waste</b>		
10% decline in the quantity of organic waste in production. Result: the amount of organic waste decreased 6.7 %.		5 % decline in the total waste amount per ton of coffee produced (Vuosaari and Tver).
Reduction in use of packaging laminate (kg) 3 %. The use of packaging laminate decreased 7% (4.7 % per ton of coffee produced).		Environmental reporting of packaging will be developed during 2015. New targets will be published by the end of the year.

## Green Office

Reducing commuting by stepping up phone and videoconferencing.  
Results: the amount of videoconferencing increased considerably but also travelling increased due to many group level international projects.



Reducing commuting by stepping up phone and videoconferencing.

5% reduction in use of copy paper.  
Result: Use of copy paper decreased 8 % per employee in Vuosaari office.



5% reduction in use of copy paper per employee in Vuosaari.

### Our target:

**Safe and high quality products and services consumers want to buy and use**

## Targets and results 2014

## Result

## Targets 2015

### Reduction in product complaints and continuous improvement of operations

Number of product complaints below 15 per million kilos of produced coffee in Finland, less than 10 per million kilos of produced coffee in Russia.  
Result: Finland 14 complaints per million kilos coffee, Russia 3.7 complaints per million kilos coffee.



Number of product complaints below 14/million kilos output (Finland), less than 3.7/million kilos output (Russia).

Quality of manufacturing operations, GMP index\*. Target index Finland 65/75, Russia 33/45.  
Result: Finland 67, Russia 38. \*GMP: Good Manufacturing practices



Quality of manufacturing operations, GMP index (result/target) Finland and Russia. Target 3.8/5\* in both. \*scale has changed

### Keeping the brand and products attractive to consumers

Paulig's coffee brands are the most desirable in Finland (1):  
Result: According to Coffee market survey\* consumers find Paulig coffees most desirable. \*Kahviseurantatutkimus.



Paulig's coffee brands the most desirable in Finland (1).

Paulig among the top 3 food companies for reputation (TNS Gallup).  
Result first place among the food companies.



Paulig among the top 3 food companies for reputation (TNS Gallup).

**Our target:**

**Economically and ethically sound business that enables good employment and investments in business development both in home markets and countries of origin.**

Targets and results 2014	Result	Targets 2015
<b>Commitment to long-term profitable business</b>		
<p>“The profitability criteria agreed in the Paulig Group’s strategy are fulfilled: Result: The net operating profit target was achieved.”</p>	●	The profitability criteria agreed in the Paulig Group’s strategy are fulfilled.
<b>Investments in coffee growers</b>		
<p>Number of coffee farmers involved in International Coffee Partners (ICP) projects 30 000. Result: Number of farmers involved was 32 881.</p>	●	Number of growers involved in ICP projects 35 000.
<p>Investments in ICP projects (International Coffee Partners) 160 000 €. Result: the investment was 163 334 €.</p>	●	Investments in ICP projects 160 000 €.
<b>CR and ethical principles training</b>		
<p>80% of coffee division employees have accomplished the Paulig group Ethical Principles training. Result: 85 % of employees accomplished.</p>	●	Ethical Principles training for all new employees and supplementary training for other employees.
<p>Coffee Division basic training Russia and Baltics, trainings to be continued in Finland. In Russia and Baltic’s 80 % of employees and in Finland 35 % of employees participate. Result: In Russia over 80% of employees participated, in Baltic’s training was not arranged and in Finland 6% of personnel participated.</p>	●	2 training sessions for new employees in Finland and to the personnel in Baltic’s.
<b>Communication and dialogue</b>		
<p>“CR website publication and development of communication. Utilizing the results of stakeholder survey in CR work. Result: CR site was published and communication partly renewed. Stakeholder survey was utilized e.g. in Sustainable coffee program planning.”</p>	●	Development of CR reporting and activation of CR communication.

## Corporate responsibility indicators

20.5.2015

### Finance

31.12.2014	MEUR
Net sales	280 953
Wages and salaries	17 444
Purchasing costs of ingredients and materials	
Interest and other financial income	269
Interest and other financial expenditure	819
Investments	3997

### Personnel

31.12.2014	Finland	Estonia	Latvia	Lithuania	Russia	Sweden	Norway	Poland	In total
Number of employees (in active and inactive employment)	306	54	17	22	142	20	10	6	586
Number of employees per country (%)	52 %	9 %	3 %	4 %	25 %	4 %	2 %	1	100 %
Permanent (%)	93 %	96 %	100 %	100 %	98 %	100 %	100 %	100 %	99 %
Part time (%)	7 %	4 %	0 %	0 %	2 %	0 %	0 %	0 %	4 %
Blue collar (%)	30 %	0 %	6 %	0 %	26 %	0 %	0 %	0 %	22 %
White collar (%)	70 %	100 %	94 %	100 %	76 %	100 %	100 %	100 %	81 %
Women (%)	45 %	42 %	29 %	27 %	35 %	25 %	20 %	67 %	43 %
Men (%)	55 %	58 %	71 %	73 %	65 %	75 %	80 %	33 %	60 %
Average age (years)	42	37	34	35	34	40	53	34	39
The Union membership among employees (Blue collar and white collar)	55 %				-	-	-		-

### Turnover rate

Turnover rate, permanent employees (%)	7 %	16 %	18 %	18 %	12 %	45 %	20 %	100 %	12 %
Leaving rate, permanent employees (%)	8 %								
Amount of retired employees	3								
Average length of employment (years)	13	4,7	2,3						

### Leadership and competence development

Coverage of 3D development and target discussions (%) (permanent employees)	100 %	100 %	100 %	100 %	100 %	100 %			
TellUS Leadership index (employee satisfaction index), entire Coffee Division	73,4								

## Work health and safety

Sick days due to injuries (number of)	5	0	0
Accident frequency (Amount of injuries with at least 1 day absence per million working hours)	9,4	0	0
Sickness absence rate (%)	3,2	1,6	3,3

## Environment

	In total	Vuosaari	Tver
<b>Raw materials</b>			
Purchased green coffee, in total (kg)	51 996 000		
Purchased green coffee, mainstream (kg)	48 621 000		
Purchased green coffee, certified/verified (kg)	3 375 000		
<b>Packaging materials</b>			
Placed on the market (kg)	2 585 025		
<b>Energy consumption MWh</b>			
Natural gas	14 960	12 403	2 557
Electricity	11 397	10 060	1 337
District heating	2 602	2 602	-
<b>Production</b>			
Coffee production (t)	46 563	41 057	5 800
<b>Air emissions (t)</b>			
CO <sub>2</sub>	6 417		
Hydrocarbons	28		
Carbonmonoxide CO	141		
Nitrogen oxides NO <sub>2</sub>	4,37		
Sulphur dioxide SO <sub>2</sub>	0,03		
<b>Water</b>			
Water (m <sup>3</sup> )	8 717	7 689	1 028
Water (m <sup>3</sup> /produced ton)	0,21	0,187	0,177
<b>Waste</b>			
Mixed waste (m <sup>3</sup> )		0	1929
Energy waste: Packaging reuse (t)		264,5	
Biowaste (t)		208	118
Recycled material (t)		118	
Hazardous waste (t)		4,1	
Recyclable waste (t)			4,5

## Responsible sourcing

Traceability of green coffee purchased by Paulig (%)

- To trading houses in the countries of origin	100 %
- To cooperatives and mills	
- To farms or cooperatives representing them	
Share of certified green coffees of Paulig purchases	4,4 %
Share of coffee suppliers who have signed Paulig's ethical principles	100 %
Amount of coffee farmers involved in International Coffee Partners' projects	32 881
Investments in International Coffee Partners and Coffee and Climate projects (€)	163 532

## Products and services

	Vuosaari	Tver
Amount of product claims per million kilo roasted coffee	14	3,7

Paulig's placing in Companies reputation and responsibility 2013 study (TNS Gallup) among food industry: 1.

	Vuosaari	Tver
Good Manufacturing Practices index (whole year, target/result)	67/65	38/36