DEUTER SOCIAL REPORT 2012





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FOREWORD

Dear Deuter Family, Customers, and Business Partners!

2012 was a 'moving' year for Deuter — literally! Since our move to Gersthofen back in 1997 the brand has grown by 800%. It was about time to take the next step — and we did! At the end of 2012 we did not only look back on a very successful business year, but also on our successful relocation to our new head-quarters in Gersthofen. Bright, spacious, and equipped with the latest technology — no wonder we are freshly motivated. We so much enjoy our new home!

Yet, 2012 was also a rather busy year for the entire outdoor

industry. We were confronted with a high media impact regarding tests of outdoor products (partly based on questionable parameters and criteria). Our industry was also targeted by several non-governmental organisations: campaigns against live-plucking and force-feeding in down production; Greenpeace published a report on chemistry in outdoor clothing and the Clean Clothes Campaign released an updated report on working conditions at outdoor industry suppliers. Then the world was shocked by the dreadful news about garment factory fires in Bangladesh with more than a hundred of workers killed and many injured. As a consequence we were increasingly questioned about labour safety issues — although we do not produce at all in Bangladesh. All the

many different and complex aspects of sustainability, from social standards to labour and health safety, from animal rights to

environmental issues, are gaining in importance. We are therefore very glad to have Katrin Riedel in our team, who has been responsible of all Corporate Responsibility issues, concepts, and processes at Deuter since September 2011.

We are also very lucky and proud to have a rather uncommon supply chain: Deuter only has two suppliers! Our production partner Duke in Vietnam has been exclusively manufacturing all our backpacks and accessories since 1994, today accounting for 90% of our production volume. We were able to (more than) fulfil the specifications of the Fair Wear Foundation (FWF) in 2012. We made the strategic decision to exclusively work with long-term partners almost 20 years ago. Back then we did not foresee its (positive) impact. Topics like supply chain transparency, the company's liability towards man and nature as well as product traceability play a much more vital role today — and not just only in the marketing departments of the big enterprises.

Corporate Responsibility will, of course, be a key issue in the years to come. Even though (or maybe because?) the rapid growth, which the outdoor business enjoyed over the past years, will weaken and competition will become tougher.

We are a strong team at Deuter! The foundation of the brand's success is the expertise of our long-term employees. More than 20% of our colleagues have been trained within the company. Thus we are well prepared to take those many small steps necessary to successfully implement long-term changes — and to continue being one of the world's leading outdoor brands.

Yours Faithfully Bernd Kullmann 3





TWO-MINUTE VERSION



Robert Schieferle (left) lives his passion for the outdoors – also at work. In 2011 he raced the legendary Ötztal road bike marathon in the Austrian Alps over 238 km and a climb of 5,500 m in elevation. Also impressive is his climb within the company: Robert has been with Deuter for 23 years, starting in 1990 as a trainee for Industrial Administration – today he is our General Manager. And many others in the head-quarters in Germany are just as consistent: over 20% of our 76 employees have been trained at Deuter.

Deuter's Corporate Responsibility approach encompasses four areas of focus: Employees & Suppliers, Environment & Nature, Customers and Community Involvement. The following social report concentrates exclusively on the area of Employees & Suppliers. The reporting period is 2012. Yet since this is Deuter's first public report it also integrates aspects that reach further back in time.

Deuter is a company with a strong tradition and is strongly defined by consistency. Over 50% of the employees have been working for the brand for five years or longer. More than 20% of the 76 employees in the headquarters have been trained at Deuter (chapter 3).

The same approach of consistency applies to the suppliers: manufacturing partner Duke has been producing Deuter's entire backpack, bag and accessories collections since 1994. For ten years, Deuter's Chinese partner has been producing the sleeping bag range (chapter 4). With only two production partners, Deuter's supply chain is extremely overseeable and is classified as a best practice case.

Deuter joined the Fair Wear Foundation in 2011. In 2012 the brand reached the 90% threshold: over 90% of the production volume has been monitored by FWF's independent auditors (chapter 5). In 2013 Deuter will focus on the implementation of the Corrective Action Plan (CAP) and on the issue of living wages. Further Deuter and its producer Duke will together work on reducing the number of sub-suppliers in 2013 (chapter 6).



1. ABOUT DEUTER

1.1. Our Brand

Deuter is a brand with a long and strong tradition! Hans Deuter founded the company in 1898 in Augsburg/Germany. He soon was commissioned to supply the Royal Bavarian Post Office with mail bags and post sacks. Today, 115 years later, we are

one of the leading brands for backpacks worldwide. 76 employees are working in our headquarters in Gersthofen near Augsburg, and we are represented in 54 countries worldwide. An essential part of our tradition is the close cooperation with alpinists and athletes. Since the 1920ies we have equipped expeditions that went down in alpine history. Such as Willi Rickmer's exploration of the remotest regions of the Pamirs in1928 or the famous Nanga Parbat excursion in 1934, where the team already used our first Tauern backpacks. Anderl Heckmair was the first to conquer the notorious North Face of the Eiger and he relied on our material and so was Hermann Buhl on his first ascent of the Nanga Parbat in 1953.

Over the decades, Deuter again and again revolutionized the backpack market with its groundbreaking innovations: in 1984 with the introduction of the Aircomfort mesh back carrying system, which was unique at that time; or in 1990 when we invented the first bike specific backpack together with Trans Alp pioneer Andi Heckmair. Another tradition we take great pride in: as early as 1959 Deuter created a female model of the Tauern. Today our women specific SL range presents the widest female range on the outdoor market.

In 2006 Deuter was acquired by the Schwan-Stabilo Group - a family owned company with an even longer tradition of 158 years. Deuter forms the Outdoor Division of the group together with the mountaineering brand Ortovox.



Anderl Heckmair and Wiggerl Förg on the First Ascent of the Eiger Noth Face

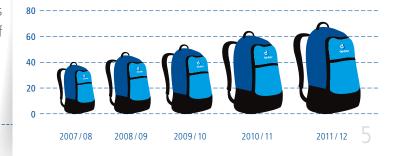
Gerlinde Kaltenbrunner at the K2 North Pillar, moments before reaching the summit

1938Deuter Tauern





TURN-OVER IN MIO. EUR



1. ABOUT DEUTER 1.2. Our Products

Deuter is known for its high quality, durable backpacks, sleeping bags and accessories. We are an outdoor brand — and this clear specialisation allows us to do what we do best! This is what enables us to always be innovative and to stay ahead of the rest of the market. Our competence is deeply rooted in the functionality of our products. We are always focusing on:

state-of-the-art material and professional workmanship:
 Deuter products stand for reliability, durability and safety.
 smart solutions instead of frills: Deuter products are not overloaded with superfluous extras — every single feature brings a true customer benefit.

products perfectly adapted to the range of use: they are designed to the detail for a specific activity.

products perfectly adapted to the wearer's anatomy: they

products perfectly adapted to the wearer's anatomy: they a guarantee top individual comfort. The SL range is engineered to fit the anatomy and needs of female athletes, and our EL range is specifically designed for tall people.

Deuter is an authentic brand! We know how essential it is that you can fully trust your equipment. We not only work closely with professional mountain guides and athletes, we also use our products ourselves. No wonder we are so passionate about our work and the outcome.

1. ABOUT DEUTER

1.3. Our Values

Top of our corporate 'list of values' comes work enjoyment! This is what motivates and drives us. With our authentic passion we can inspire our customers and convince them of Deuter products. We believe in a good work climate. It quarantees a high identification with the company, the brand and our daily tasks. Our down-to-earth approach to work is defined by an open, trustful way of dealing with each other. Mutual respect is essential,

in particular when it comes to integrating new colleagues.

Our team dynamics are strongly shaped by productive, creative team work, while we also encourage our employees to work independently. Our success has shown that fostering a work environment where all employees can contribute ideas and achieve their greatest potential is the basis for our famed creativity and our drive for innovation. It also defines our ambitious approach: our goal is to perfectly understand and master what we do.

This commitment and this spirit is pretty similar to the commitment and spirit of an athlete — in the end, outdoor sports is at the heart of Deuter. And this means automatically that there is

another central value that defines the brand: our products are designed for the outdoors. This is where we are (and where we feel) at home. For us the protection of the environment is a deep personal conviction. Sustainability can only be effective if it is based on a long-term approach. No short-term profit gain will make us strong. We believe that only a holistic approach, where every aspect of environmental, economic and social impact is part of the equation, presents a safe and strong foundation for us as a brand.

For more details on our corporate values see:

http://www.deuter.com/values



2.1. Our Approach

The conviction that we as a brand must act socially and ecologically responsible has always defined Deuter. In September 2011 we have created a new full-time position to integrate and foster our corporate responsibility concepts.

We have deliberately chosen the term CR (Corporate Responsibility). For us, the commonly used term CSR (Corporate Social Responsibility) implies a strong focus on the social aspect. Yet

we believe that a sustainable company policy is fundamentally rooted in the fusion of economy, ecology and social commitment. On this basis we mapped four CR pillars:









You can find more details on Deuter's CR structure here: http://www.deuter.com/responsibility



2.2. From acorns oak trees grow

Our commitment is themed "from acorns oak trees grow". It is a great challenge, yet every athlete is seeking challenges and we are very ambitious to achieve our targets. We do not believe in "the one, major leap". We believe that the policy of many small steps is the roadmap to effective, long-term changes. Our goal at Deuter is to constantly reduce the negative impact of our actions on man and nature. We still focus on our products: there are no compromises when it comes to their quality and durability.

To supervise and promote the numerous, complex Corporate Responsibility activities we have recruited Katrin Riedel as CR Manager in September 2011. \tilde{I}

She is supported by our Deuter experts from the product department as well as sales, marketing and logistics. They are also directly involved — as is the management board — in the further development of the CR strategy. At Deuter the internal ways are short and open promoting a direct and dynamic communication. Corporate Responsibility is on the agenda at every meeting of the departmental managers. Further, in 2012 we held our first CR workshop where the entire Deuter team identified and discussed relevant issues and stakeholders.



2.3. Stakeholder Dialogue

Our CR approach is embedded in a complex environment defined by the corporate structure of the Schwan-Stabilo Group, the competitive dynamics within the outdoor industry as well as, of course, our global supply chain. This is the framework for all the manifold questions, expectations and suggestions put forward by our employees, retail partners, end consumers and media.

We use different channels to communicate with our stakeholders. Yet in all situations one thing applies: personal contact is key!

One significant part of our external communication is to cultivate personal contact at regular customer visits. However, we also build and maintain face-to-face contact at the numerous trade shows, end consumer events and retail training programs.

for a lively exchange with interested stakeholders.

In cooperation with the brands Meindl and Leki we host an annual hiking excursion for journalists. In the recent years, Corporate Responsibility has been a central, much discussed topic during this event.

And, of course, anyone interested can always get in contact with us directly via email or phone: Katrin Riedel, Tel.: +49 821 / 4987358, katrin.riedel@deuter.com.

The same applies for our internal communication: we prefer the personal contact. Our employees can also bring up ideas and suggestions via our 'idea box' (in-house suggestion system). Further, at our bi-annual staff meeting we present our CR progress, our targets and answer open questions.



Further, the Sustainability Working Group of the European Outdoor Group (EOG), our membership in organisations such as the Outdoor Section (FGO) of the Association of the German Sporting Goods Industry (BSI) as well as the Fair Wear Foundation and bluesign® provide platforms where we regularly meet other outdoor brands to discuss and exchange CR issues and concepts.

Deuter was also invited to take part in the " 7^{th} Bavarian Economy Round Table" – a conference hosted by the Bavarian State Ministry of Labour, Social Affair, Family and Women. We were asked to talk about the topic "Labour und social standards in the Deuter supply chain". We also used the event



German conference title: "7. Runder Tisch der Bayerischen Wirtschaft"

2.4. Challenges

Deuter stands for trusted quality and functionality — and this will never change. We are and we will always remain a 'product driven' company. For us Corporate Responsibility means fusing economy, ecology and social equity. It is a very demanding task to continuously maintain and strengthen this balance. This should not be misinterpreted as an excuse — we want to present a realistic and comprehensive picture of our CR commitment.

We are proud of our trusting, long-term partnership with our suppliers, which also gives us the opportunity to have significant influence on the production as well as the working conditions. Of course, our influence is limited as we do not have any company-owned production facilities. We depend on the cooperation of our partners, but we have strong, dedicated and willing partners. Still the factories are not located in Germany, but in countries with a different legal structure and different conventions. This can make the implementation of necessary changes more difficult and more time-consuming. Further it is important to emphasize that — especially when considering the sensitive issue of wage policy — we as well as our partners operate in a highly competitive market.

Our ecological commitment also holds many challenges. We have to consider the use of new material or new production technologies very carefully. Will a change live up to our demands and the demands of our customers in regards to quality, functionality and longevity? In the end, no one will buy an environmentally friendly product if design, functionality or price do not meet the expectations.

Against this backdrop we have formulated our objective: step by step we want to reduce the negative impacts of Deuter's activities on man and nature. We hope that our customers will accompany and support us on this way. Adelheid Rest finished her training at Deuter in 1970. She has been in charge of the Deuter accounts ever since.

3. EMPLOYEES

Mirjana Bjelos can get since 1976 (almost) every pack back into shape at the Deuter repair workshop – either by sewing machine or by hand.

Bernd Kullmann since 1986 heart and soul of the rucksack development team; since 2006 DEUTER CEO – and still as passionate about mountains

Peter Vogler, professional mountain and ski guide, member of the Deuter product development team, Sales Rep for Western Germany.

Robert Schieferle started his career at Deuter in 1990. His way led from trainee to management board.

Steve Buffinton can't take his hands off Deuter products since 1996: he started as a member of the product development team and then became head of product management.













3.1. Headquarters in Gersthofen

'Deuter Family' is not a marketing phrase. We were looking for a term that would capture the culture of our brand. For most of us, Deuter is more than just "the place where we work". Deuter is a brand that we identify with and it is a brand strongly defined by team spirit. We also share the passion for the outdoors, particularly for the mountains.

The figures underline that rather special company culture: for example, we have an average tenure of nine years and 52% of all Deuter employees have been with the brand for at least five years and more.

Like many other medium-sized businesses in the outdoor industry, Deuter is a strong brand with a relatively small team. Since the Schwan-Stabilo Group acquired Deuter in 2006 we have continuously grown — and the economic growth, of course, goes hand in hand with the growing number of employees.

The share of apprentices is high. In general, we annually offer two apprenticeship programs in business administration and since 2004 also one position for a logistics technician. We have a high retention rate and 21% of the staff¹ has been trained at Deuter. That is good for us as a company, but also good for the quality of our products and services. In the end, continuity and experience ensure a high level of knowledge and skill.

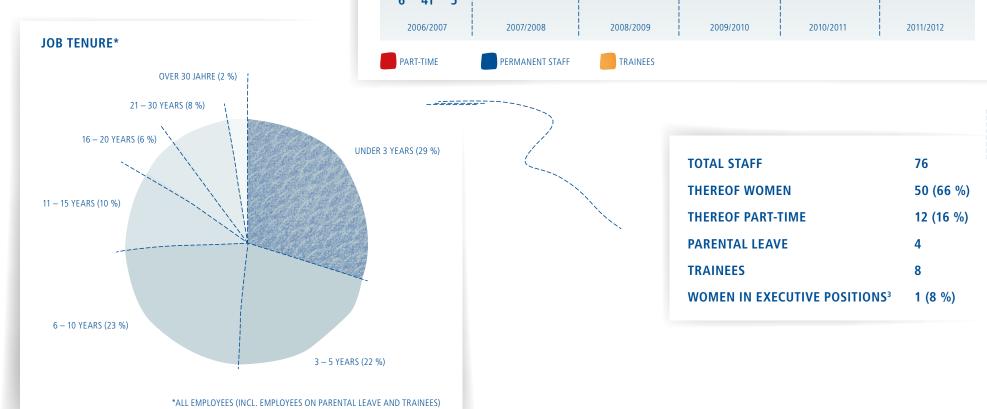
For us, labour leasing is of no relevance. We were only forced to lease labour in 2009 when we set up a new inventory management system. The software migration led to a strong increase of workload, which our regular staff could not handle without additional support.

The figures show a high share of female employees at Deuter — yet a low share of women in leading positions. Especially in times of demographic change and increasing skill shortage in Germany, it is important to address these issues. In 2012 we intensified talks with the city of Gersthofen as well as neighbouring companies to discuss options of day care centres near our headquarters. At the moment an in-house solution is not yet feasible: our team is still too small. It is a highly complex issue (further enhanced by the changes in German law on child care) and we do not expect it to be quickly resolved in 2013. Yet we work hard and we are very dedicated to find solutions!

² Permanent staff plus employees on parental leave (excl. trainees)

3. EMPLOYEES





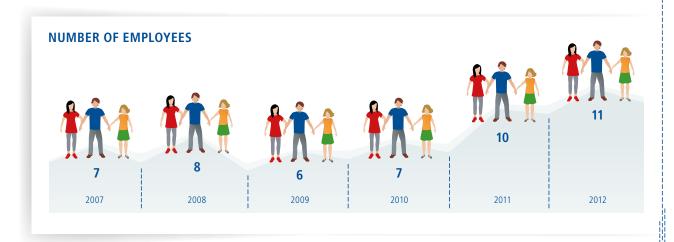
3. EMPLOYEES



Bill Hartrampf is originally from the US and joined Deuter as head of export in 1994. It wasn't exactly a short cut, but after 14 years he found his way back home to take over the position of CEO Deuter USA in 2008.

3.2. Subsidiary Deuter USA

On both sides of the Atlantic Deuter is literally 'on the move': In Germany, we have relocated to new headquarters at the end of 2012 and our colleagues in the US are doing just the same. While in Germany we remained within Gersthofen, Deuter USA as well stays in its hometown Longmont. The US team is highly motivated to further push Deuter products on the US market. It is a great challenge to establish a German brand next to the strong US brands. Yet our team in the US is extremely committed and extremely successful — a fact that is mirrored in the figures, such as the growing numbers of employees.





"The decision to produce in Vietnam was not so much a decision for a particular Asian country. It was a decision in favour of a particular company! I was introduced to the company Duke and its owner, Mr. Oh, via a mutual friend 22 years ago. He quickly impressed me with his honest and straight-forward approach. He has a great way to communicate and openly discusses and confronts problems and questions."

4.1. Sourcing strategy and production cycle

We believe in long-term and trusting partnerships! This way we can guarantee our team's high level of motivation, creativity, quality and reliability – from our head office in Gersthofen to our retailers and, of course, our production partners. In our brand performance check 2012 the FWF identified our partnerships as 'Best-Practice Example'.

We have been working with our backpack manufacturer Duke since 1991. And since 1994 Duke produces our entire backpack collection and we are Duke's exclusive customer. For a decade we have been working with our sleeping bag producer in China and our collection today accounts for 25% of their overall production.





A backpack is made from more than 220 different parts! And it requires a high level of skill and experience to put those pieces together. Such complex, demanding high quality sewing products can no longer be produced in Germany. One issue are competitive prices, yet another factor is the lack of handicraft expertise. In Germany traditional sewing professions have more or less become extinct. It was even difficult to find new staff for the Deuter repair service in Gersthofen.

We were very lucky to find our new colleague, who had previously worked for a balloon factory in Augsburg that had relocated its production to Asia in 2009.

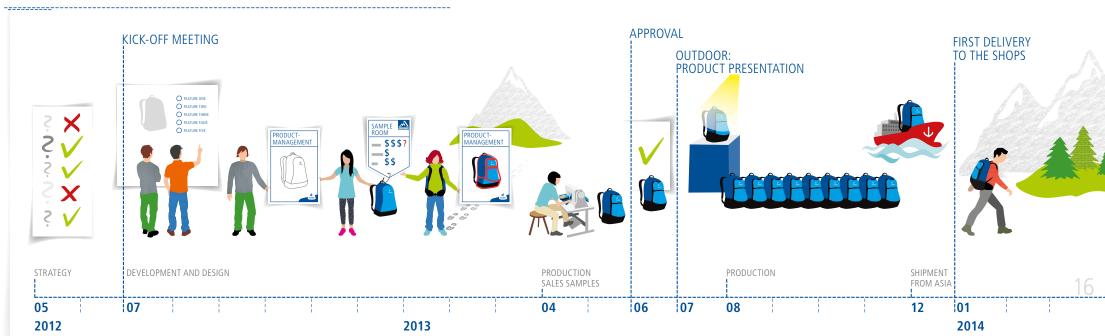


On the basis of our design and our material request, our manufacturers present the price for a specific product. If it is too high we work together on the product to achieve a competitive price point. We have no interest in bargaining and we have no interest in putting pressure on our producers. We know that our partners offer fair prices, because both sides strongly believe that a trusting relationship creates a solid basis and will always pay off.

We produce one main collection per year and an additional smaller winter range. The main collection is presented in summer at the international sports trade show OutDoor in Friedrichshafen/Germany, The winter range is introduced in February at the ISPO trade show in Munich.

Thus, we only change a third of our collection each year. Most of the products remain in the range for several years with only minor modifications. For example, one of our classics, the Trans Alpine, has been in our collection since 2000. Over the years only a few details have been adapted. It is almost a taboo to even consider a major change of our best selling bike pack. In the past five years we have sold 330,000 pieces.

SIMPLIFIED PRODUCTION CYCLE: SAMPLE MAIN COLLECTION 2014



LAOS

CAMBODIA

Ho Chi Minh

CHINA

4.2. Vietnam – backpacks, bags and accessories

Our partner Duke produces all of our backpacks, accessories and since 2011 also our bag range at three sites close to Ho Chi Minh/Vietnam. This accounts for 90% of our production volume. In the first 1.5 years of our FWF membership we therefore focused on the production in Vietnam. Altogether, 2,920 employees (thereof 2,044 women and 876 men) assure our famous Deuter quality (as at November 2012).

Our products are known for their high quality and durability — the kind of standards that can only be guaranteed by well-trained, experienced and skilled employees. Achieving high levels of staff retention and

motivation in Vietnam is therefore vital for us. The Duke employees have a binding employment contract and basic social benefits such as health insurance and paid holidays — unfortunately still not a matter of course in Asia. Employees are also paid above-average wages, are given free lunch, a free shuttle service from/to Ho Chi Minh City and the opportunity of free accommodation in company-owned housing for women.







Medical insurance, employee representation, fixed holiday days, above average pay, free lunch and performance bonuses for every worker – these are just some of the elements that lead to successful staff retention and motivation. A certificate guarantees that no children work in the production line.

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Donte + Dule: The Beginning

Deuter CEO Bernd Kullmann talks about the start of his business relationship with Mr. Oh, CEO of manufacturer Duke, Deuter's exclusive production partner for all backpacks since 1994:



"The first meeting with Mr Oh was already pretty uncommon. In the early 90ies we met for a coffee during the sports trade show ISPO in Munich. We were introduced by my former Deuter boss, the man who had actually brought me to the company in 1986 – an old climbing buddy. Yet in the meantime he had left Deuter and was responsible for the product develop-ment at a competitor...

He had told me about a 'rough diamond' that he had found: "a fantastic backpack manufacturer who is looking for extra quantities to start his own business." I was rather reluctant and met Mr Oh more or less for my old friend's sake. Straight away two things struck me: 1. Mr Oh's

English was so much better than mine. 2. He seemed very knowledgeable and competent.

And thus I trusted my gut feelings. On the spot, I placed two production orders. The big surprise came three days later in form of a fax (the days before the internet...): it showed notes and suggestions for optimizing the two backpacks as well as a list of alternative material with which we could achieve a better price. I had never experienced that before. Plus: His recommendations were in fact excellent.

I flew to Saigon to inspect the first production.

Back then it was still unmapped territory for back-

pack production. Only Winni Schechinger produced there for his brand Tatonka.

Mr Oh had taken care of my accommodation in Saigon. It was a rather simple hotel, with a rate of \$25 per night. That was unusual as well since manufacturers tend to choose luxurious lodgings to impress and pamper potential clients.

The next day we went to see the factory – a start-up with 35 sewing machines. The work on the products was extremely accurate. And Mr Oh again proved to be a highly professional business partner with an immense expertise in the field of backpack design.

Off the cuff I placed further orders, discussed the products and was back two months later. In the meantime the production had doubled with 70 sewing machines. Again the pre-production was fantastic. I had never before experienced such a high level of quality, such an open communication, and most of all such a high level of expertise. At that time the common mentality was: if there's a problem – ignore it! Pack it, send it and hope that no one in Germany will notice. Mr Oh was the exact opposite: he pointed out potential problems before-hand, from the material to the design, and he always came up with alternatives and possible solutions.

Since those early days I have been to Saigon numerous times. Our business relationship has grown to become a close friendship. And the small start-up Duke today is one of the biggest backpack manufacturers in Asia.

Over many years we have spent days and nights developing backpacks and carrying systems. The first highly functional bike backpack (together with Andi Heckmair), the first child carrier with adjustable back length, so many details in backpack constructions that by now are common standard in backpack design... Many of this was inspired by S. H. (the initials of Mr Oh's first names – his full name is rather difficult to pronounce for Western tongues...).

However, I also remember seemingly endless meetings where we dis-

To Gerale 18

18

The beginning of a close partnership with Mr. Oh starting in 1994 with 35 sewing machines ...



cussed new ideas that Mr. Oh couldn't relate to at all. He thought I was crazy. Once we had a Bavarian guy who was looking for a backpack in which he could carry his tired dachshund. I will never in my life forget the expression on S. H.'s face. He looked at me astonished and confused combined with a serious concern regarding my state of mind. We did develop the backpack in the end! Of course, we hardly sold it, but when we presented it at the trade show we had three camera crews at the booth and it was a full page headline in one of the biggest German dailies.

For many years now Duke and Deuter have been working on an exclusive basis. In the end you don't want to share such an excellent manufacturer with any competitor. Over the years Mr Oh proudly has always sent me all those cooperation inquiries from competitors. And every time he included a note: "FYI only – of course, Deuter will stay our exclusive partner".

For quite some time now the next generation has taken over. My know-how is the know-how of an ambitious mountaineer and teacher — a know-how far from being sufficient to develop the world's best backpacks. I've passed on this task to our professional design team, while S. H. has also passed on his development work to his team of engineers and technicians. And some

parts of his organisation, which today includes three productions sites and 3,000 employees, are today managed by his son S.T..

Yet we still meet once or twice a year. Sometimes we even come together to build simple special editions for big customers. And when we sit down for a beer in a bar we are rather proud of what we've created together. And every time I tell him that the brand Deuter would not be what it is today (namely one of the most respected outdoor brands worldwide) without that meeting 20 years ago at ISPO."



... Today, Duke is a highly specialised backpack manufacturer with 3,000 employees. Duke exclusively produces all Deuter rucksacks and accessories.

orbule 700.000 Ost founder of a street Duck - Erdfore

Duke CEO Mr Oh talks about his first meeting with Bernd Kullmann and the process of growing together:

Bernd secretly passed me two backpacks at our first meeting (a simple trekking pack and a hiking pack). He had folded in the Deuter logo and he was watching his shoulder... I was pretty impressed by his voice and his huge arm muscles. I gathered he was a strong and passionate quy and a real outdoor specialist.

I was fortunate that he placed his first order for these two packs in nearly minimum production quantity – and he continued to order...

They were always rather small quantities, about 500 to 1,000 pcs per order and during this first year I shipped almost 50 deliveries without any trouble. Back then Deuter seemed to me like a headache customer... I did not want to fight with the small orders - Bernd was just so sincere. Yet over time we became closer and the business started to grow.

My first argument with Bernd probably took place in my second year with Deuter. I was invited to the Deuter office in Augsburg and we worked together for two days to refine some details and develop new ideas. Towards the end of this visit, we discussed a new line. Bernd had sent many reference samples with details, yet I had been extremely busy and had no time to review them well. A problem also was that I always depended on Bernd's handwritten fax messages — and his writing, well, it is pretty difficult to read... Still, I'm convinced I'm the best man in Korea to decipher his handwriting.

M. a frush u

Anyway, I carried all reference samples back to the Deuter office. Bernd was very upset and closed the meeting. By then I was also quite upset, because I was completely tied with his inquiries and thought I had done my best for Deuter. I hoped he might understand my effort and the difficulty to read his handwriting.

I asked my staff (Mr. Slim Kim and Miss Kwon) to go back to our hotel in Munich.

It was early evening and getting dark. I tried to call taxi to the station. But it took Bernd 10, 20 minutes to calm down and he asked me to join him for dinner.

I calmed down myself and in the end apologized for my laziness regarding the new line. We went to have a nice Italian meal and some drinks. I think this was the first and the last real argument with Bernd and it brought us closer...

When we built our main factory called Cu-Chi Bernd visited and he was pretty worried if he could fill up the newly expanded capacity. Cu-Chi was double the size of our Hoc-Mon factory, which we used for a long time for Deuter only. I was worried as well, but I was positive that Deuter could fill our capacity in the future. In our first year we operated half capacity and within two years we were able to use almost the full capacity for Deuter. It was just the right time for expansion – for us and for Deuter.

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4.3. China – sleeping bags

Our partner in China with about 300 employees has been producing our sleeping bags for ten years. Deuter is the second biggest customer and accounts for about a quarter of the production.

Good working conditions are also emphasized at our Chinese production partner. The general living standard in Xiamen, a coastal town and economic centre, is relatively high. To foster staff retention employers correspondingly have to offer respective benefits. Of course, all employees have an employment contract and general social security benefits are ensured. Our partner further offers free lunch and — on request — free dinner. Since there are no company-owned housing facilities, the employees get a monthly financial support for rent and accommodation.





4.4. External production

The FWF distinguishes between "external production" and "own production". External production consists of products which we do not commission ourselves, but which we buy from another company. There are no direct buying relations with the manufacturer of the products. In our case this includes, for example, t-shirts and hats for shows, Christmas

presents for our staff and the sales team as well as POS material such as the Deuter SL flower. The share of external production in relation to the Deuter collection amounts to 0.66% only. Yet, we are dedicated to provide transparency. Of course, for us the labour and social standard are key purchase criteria.



In cooperation with our leather goods retailers we annually run a school backpack campaign: with every purchase of a school backpack such as the Ypsilon, Page or Graduate the customer gets a small giveaway. For those free products, which are distributed in large amounts, the price point is, of course, a key buying criteria. With the help of our product designer we were able to produce the freebies 2013 with our partner Duke in Vietnam. Thus we can be sure that it has been manufactured under good working conditions. Plus we could also use (or rather re-use) left-over material from design modifications, colour or collection changes. Thus our partner reduced the inventory and was able to offer us a good price — an exemplary win-win-situation.



5. DEUTER MONITORING 2011/2012

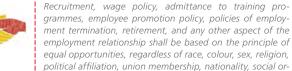
1

Employment is freely chosen

There shall be no use of forced, including bonded or prison, labour.

2

There is no discrimination in employment



igin, deficiencies or handicaps.

3

No exploitation of child labour

There shall be no use of child labour. The age for admission to employment shall not be less than the age of completion of compulsory schooling and, in any case, not less than 15 years. Children in the age of 15-18 shall not perform work which, by its nature or the circumstances in which it is carried out, is likely to harm their health, safety or morals.



In August 2011 Deuter joined the Fair Wear Foundation (FWF). The independent verification initiative works with companies and factories to improve labour conditions worldwide. The non-profit organisation supports our efforts to ensure good labour and social standards and regularly keeps track of the improvements we make.

In the first 18 months of our membership we have focused on the factory sites of our production partner in Vietnam, where a majority of our collection is manufactured.

4

collective bargaining

The right of all workers to form and join trade unions and bargain collectively shall be recognised. Workers' represent-

Freedom of association and the right to

atives shall not be the subject of discrimination and shall have access to all workplaces necessary to carry out their representation functions.

The company shall, in those situations in which the right to freedom of association and collective bargaining are restricted under law, facilitate parallel means of independent and free association and bargaining for all workers.

Payment of a living wage



Wages and benefits paid for a standard working week shall meet at least legal or industry minimum standards and always be sufficient to meet basic needs of workers and their families and to provide some discretionary income. Deductions from wages for disciplinary measures shall not be permitted nor shall any deductions from wages not provided for by national law be permitted. Deductions shall never constitute an amount that will lead the employee to receive less than the minimum wage. Employees shall be adequately and clearly informed about the specifications of their wages including wage rates and pay period.

5.1. FWF Labour Standards

By joining the FWF we have committed ourselves to implementing the strict FWF Code of Labour Practices.

6

No excessive working hours



Hours of work shall comply with applicable laws and industry standards. In any event, workers shall not on a regular basis be required to work in excess of 48 hours per week and shall be provided with at least one day off for every seven-day period. Overtime shall be voluntary, shall not exceed 12 hours per week, shall not be demanded on a regular basis and shall always be compensated at a premium rate.

7

Safe and healthy working conditions

A safe and hygienic working environment shall be provided.

Appropriate attention shall be paid to occupational hazards specific to this branch of the industry and assure that a safe and hygienic work environment is provided for. Effective regulations shall be implemented to prevent accidents and minimise health risks as much as possible.

Physical abuse, threats of physical abuse, unusual punishments or discipline, sexual and other harassment, and intimidation by the employer is strictly prohibited.

8

Legally-binding employment relationship



Obligations to employees under labour or social security laws and regulations arising from the regular employment relationship shall not be avoided through the use of labour-only contracting arrangements, or through apprenticeship schemes where there is no real intent to impart skills or provide regular employment.

5. DEUTER MONITORING 2011/2012



5.2. Audits 2011/2012

In November 2011 factory 1/2¹ in Vietnam was audited by an independent audit team especially trained by the FWF. Over the following 12 months we worked on the implementation of the corrective action plan (CAP). In November 2012 local FWF auditors in Vietnam also audited factory 3 and factory 4. Further, the FWF conducted a verification audit in factory 1/2, keeping track of the implementation of the CAP.

Therefore, 90% of Deuter's production volume has already been audited. With the brand performance check 2012 we received the permission to use the FWF logo on the hangtags of our products.

All three factories are run by the same management and the processes are majorly standardized.

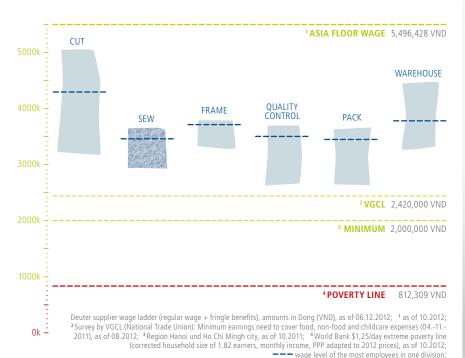
Our CR manager attended all audits. The implementation of our improvement measures is independently conducted by our production partner Duke and if required supported – financially and organizationally – by Deuter. On a regular basis Duke reports updates on the status quo of the implementation. At the same time, our product managers follow and document the realization of measures during their regular stays (every 4-6 weeks) in Vietnam.

5. DEUTER MONITORING 2011/2012

5.3. Audit results 2012

This social report aims at providing interested parties transparency about working conditions in our supply chain including monitoring activities as well as results. We want to be as transparent as possible while respecting the need of our production partner to protect his business interests and integrity. We therefore chose to report in more detail on the most prominent social issues: Living wages, working hours and occupational health and safety. In addition, we outline the issue of juvenile workers. A question that came up in the 2011 audit as well as in the verification audit 2012 and which is (under the heading of child labour) of major interest to our stakeholders.

WAGE LADDER DEUTER SUPPLIER / LIVING WAGE



Living Wages

In many countries the legal minimum wage is not enough to cover the basic needs of a worker's family. So called "living wages" are estimations on how much a family's income should be to meet the basic needs and to provide some discretionary income. Living wages are calculated for different regions and with different calculation methods. Different stakeholder use different assumptions like family size or numbers of income earners per family to calculate their living wage – this adds to the confusion.

At our production partner the workers' salary consists of a time rate, piece rate (based on group performance and skill level) and fringe benefits like for example transportation, special area allowance, or attendance bonus.

During the audit it was noted that the wages, paid for a regular working week without fringe benefits, are above the living wage estimate of the VGCL's Institute of Workers and Union. At the same time it was below the Asia Floor Wage calculation that refers to a living wage for a family of four (2 adults and 2 children) with only one income earner.

Unfortunately there are no more benchmarks on living wages available for Vietnam at the moment. It is rather difficult for us to evaluate the validity and comparability of these two benchmarks. We noted that most workers interviewed during the audit were happy with their salary and that all workers interviewed were not sole earners.

To learn more about living wages and their impact on prices we participate in the FWF-EOG living wage project. The aim of the project is to access the level of compliance in the outdoor industry, specifically with regard to wages. Results are expected in 2013.

5. DEUTER MONITORING 2011/2012





Together with our suppliers we have adjusted the order system to balance the order quantities effectively and thereby reduce overtime during peak seasons.

Working hours

Excessive working hours are a common problem in the textile industry - not only in Vietnam. The issue is quite complex since workers like to do overtime because it is paid at premium rates. Some NGOs insist that workers only favor overtime because the salary for a normal working week is not high enough. In our experience this is not always the case: Most workers appreciate the extra money because they want the additional money to gain a higher standard of living regardless of their normal salary.

Still, we agree that the level of overtime has to be reasonable to ensure the health and well-being of the workers. At the same time too much (excessive) overtime also has a negative impact on product quality and it is bad for business since overtime has to be paid at a premium rate of 150 % on normal working days and 200 % on Sundays and 300 % on holidays. Thus it is in the interest of workers, factory managers and buyers/brands, to keep overtime at a reasonable level. The FWF code of labour practices specifies a regular working week of 48 hours and 12 hours overtime per week with overtime always being voluntary.

In the factories of our production partner normal working hours are Monday to Saturday from 7.30-16.30. Overtime is from 16.30-18.00 (1,5 hours) or from 16.30-20.00 (3.5 hours OT plus 30 min. dinner break). Even though the auditors observed that overtime was compliant with legal limits for the periods reviewed, we are aware that (excessive) overtime is a crucial matter that requires a long term approach and careful production planning in cooperation with suppliers. As was noted in the brand performance check for 2012 Deuter adjusted the order system for 2013 to balance the order quantities and thereby reducing overtime during peak seasons.

Safe and healthy working conditions

The factory fires in Bangladesh demonstrated in a horrible and dramatic way the importance of workplace safety in the textile industry. Of course, Vietnam cannot be compared to Bangladesh especially regarding working conditions and workplace safety. Generally speaking the standards are much higher in Vietnam and government control more effective 20 than in Bangladesh. Although all factories audited received

5. DEUTER MONITORING 2011/2012



Occupational safety and health – our partner Duke has successfully passed all legal inspections. The management has already taken all required measures to improve deviations like the lack of sufficient safety training and missing safe guards.

from the government, the auditors observed several deviations like e.g. lack of sufficient safety training, defective emergency lights, missing safe guards and lack of valid hygiene and food safety certificate of canteen operator. The factory management has already taken the required measures to improve these issues. For example detailed safety trainings will be provided twice a week at all factories and a local expert company was hired to check the electricity system regularly.

the necessary approval and regular documentation

Child Labour

The FWF code of labour practices bans child labour. In line with the ILO convention 138 the em-

ployment age shall not be less than the age of completion of compulsory schooling and, in any case, not less than 15 years. Juveniles in the age of 15-18 receive special protection: they shall not perform hazardous work or overtime (ILO Convention 182).

In the initial audit in October 2011 ten cases of juvenile workers were observed in the factory. The majority of junior workers were 17 years old. Their working hours included overtime. This violated the FWF code of labour practices. The juveniles had started as helpers in the factory and because of their good performance were promoted to join the regular workforce. After the audit the employment of these junior workers was immediately adapted to protect the rights of the juveniles and to meet the requirements as

per law. A policy on juvenile workers was developed for all of Duke's factories.

In all three factory audits in 2012 the auditors noted that the policy was effective and the two juvenile workers are protected as required by law.



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5. DEUTER MONITORING 2011/2012

5.4. Training measures 2011/2012

Yet, audits alone are not enough to achieve long-term improvement of the labour conditions. They are mere 'snap-shots'. Therefore our key focus is the implementation of the CAP: we believe this will ensure substantial improvement and initiate a learning effect on all levels. For example, we now have a deeper understanding of many processes, which enables us to optimize processes and to better adapt to the needs of our partners. As so often good communication is the key to success. Another central aspect is further education and training. On the one hand, of course, for our production partner Duke in Korea and Vietnam: many of the topics and concepts are still relatively new for them. However, on the other hand, also at our head offices in Germany, where we want to increase the know-how and reach a higher level of awareness. We want every employee to reflect the effects of our actions und decisions. For example, what are the consequences of short notice design changes or a sudden increase of the quantity for Asia. All our employees, from all departments such as Sales, International Sales or Logistics, have been educated about the FWF Code of Conduct in detail. We used practical examples to illustrate and discuss the potential impact of our decisions on our production partner. Further we have successively schooled all Deuter distributors about our CR commitments. Of course, this includes the FWF membership and the Code of Labour Practices.

At our staff meetings we update all the employees at our headquarters in Gersthofen as well as the sales team about our CR progress and the challenges. In December 2012 we presented the FWF process in detail and explained the audits at our production partner Duke as well as the brand performance check.



6. KEY FOCUS AND **CHALLENGES 2013**

6.1. Key Focus: Living Wages

There are many reasons why living wages in general should not be an issue for Deuter at all. In the first place we believe it is a moral commitment to pay good wages for good work. Plus the top quality of our products can only be guaranteed by qualified, experienced employees. It has, therefore, always been in our own interest to ensure a fair wage policy to guarantee staff retention and motivation — and thus to maintain the high standard of our products.

The audits showed that the living wages paid by our production partner are above the living wages calculated by the VGCL's Institute of Workers and Union. And they also showed that the employees that were interviewed were

content with their wages. With this result we could be content as well and dismiss the issue – but we will not and we do not want to! Instead we have declared wage policy to be our key focus in 2013. It is of major concern for our employees and of high interest for many stakeholders.

In 2013 we therefore focus attention on the analysis of the results of a project investigating the living wages within the outdoor industry. Initiated by the EOG and the FWF the study targets to evaluate the effectiveness of the participating companies' measures to improve working conditions with a special focus on wage policy. It further investigates the effects of wage increases on the price of the product. The aim

is to clarify an often rather emotional debate, to introduce realistic figures, which provide a foundation for constructive action and allows us to together develop potential solutions. First results are expected at mid-year 2013.

6.2. Challenges

In 2011 and 2012 we were able to audit 90% of our production volume. Our next target is now to effectively implement the CAPs identified in Vietnam. One objective is to establish clear communication and to create an awareness among all employees for labour rights and responsibilities. First steps, for example, are FWF training activities at our production partner in China. Here, the management and a minimum of 20% of the employees participated in the training: "Introduction to Workplace Awareness and Dispute Handling".

Further, together with our partner we have set the target for 2013 to significantly reduce the number of sewing sub-companies. Although the production volume of the sub-companies amounts to just approx. 2% of our overall production volume, we are aware of the fact that our influence on the working conditions decreases the more complex the supply chain gets.

³ The following companies participate in the "Fair Wear Foundation – European Outdoor Group Living Wage Study": Deuter Sport GmbH & Co. KG, Haglöfs Scandinavia AB, KTC Limited, Lasse Kjus, International AG, Mountain Force AG, ODLO Sports Holding AG and Vaude Sport GmbH & Co. KG.

