

SOCIAL REPORT 2014

Reporting period Juli 2014 – Juni 2015

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FOREWORD

Dear Deuter Family, Customers, and Business Partners!

We at Deuter have the privilege to do what we are passionate about. We create products that make being outdoors safer, more comfortable, more enjoyable – reliable companions on so many unforgettable adventures. Strong partners always have been and always will be most essential for our work. They support us with their expertise during the developing process, in production as well as in the promotion of social responsibility.

The Fair Wear Foundation has been an inspiring and vital partner ever since we joined the initiative in 2011. And we were especially proud to receive the FWF Best Practice Award 2015. The annual prize acknowledges member companies who show a special commitment to improve working conditions and implement projects that are exemplary.

We received the award for our 'courageous investments' in Vietnam. In 2011 the first FWF audit documented excessive working hours during peak season. We initiated several measures at the factories as well as at the German headquarters and were thus able to significantly reduce overtime in the production.

The partnership with our producers is also very strong and close. Every four to six weeks our team is visiting our most important manufacturer Duke in Vietnam. Since 2011 we also have a CR manager, who ensures the effective implementation of the FWF code on all levels of the supply chain. No wonder we were very shocked when we received a report by an Australian NGO in November 2014. It listed non-compliances in regards to working conditions in two factories of our producer Duke. We took the allegations very seriously and discussed them immediately with the board of management during a visit in Vietnam. An independent investigation conducted by the FWF showed that most of the allegations could not be confirmed (more information on page 9). We will follow-up and close the case with trainings of FWF's Workplace Education Programme (WEP) in August 2015 and FWF audits in September 2015.

Again the FWF has again proven to be a strong partner and we are convinced to be on the right track. And we are happy to show this in our latest social report!

Your Martin Riebel



Managing Director



TWO MINUTE VERSION

For the fiscal year, 1 July 2014 to 30 June 2015, we focused on the issues of occupational safety and excessive working hours.

In one of the factories of our long-term production partner Duke in Vietnam an OHS training was being held in 2014. This was followed by an OHS check at the factory conducted jointly by the auditor and the trained workers. The results were implemented in all three Vietnamese production sites.

The Australian NGO Viet Labour reported alleged non-compliances in regards to working conditions in two of Duke's factories. We immediately informed the FWF. Most of the allegations were refuted in an independent investigation. To follow-up and close the case, there will be trainings of FWF's Workplace Education Programme (WEP) as well as FWF audits in all three factories in 2015 (Chapter 1).

We have been able to significantly reduce overtime at our partner Duke in Vietnam with a multi-level approach. Our commitment and our effective measures were rewarded with the FWF's Best Practice Award 2015 (page 14).

Another important part in the implementation of the Corrective Actions Plan (CAPs) were the excessive working hours at our partner Bellmart in China. In cooperation with a fellow FWF member we were able to successfully finalize the CAP (Chapter 2).

In 2015 Bellmart started production in its new, state-of-the-art facility in Myanmar including first Deuter ranges. We will be able to reduce overtime at the site in Xiamen with the shift of product styles to the new factory (Chapter 3).

Deuter again achieved the "Leader Status" in the Brand Performance Check 2014. The next Brand Performance Check is scheduled for October 2015.

Last but not least Deuter joined the new German alliance for sustainable textiles "Textilbündnis" in June 2015. The initiative has proclaimed the objective to actively promote ecological, economic and social improvements within the textile supply chain (page 6).

ABOUT DEUTER

Hans Deuter founded his company in 1898 in Augsburg/Germany and was soon commissioned to supply the Royal Bavarian Post Office with postage bags and mail sacks. Today Deuter is one of the leading brands for backpacks, sleeping bags and accessories worldwide. 97 employees are working in the headquarters in Gersthofen near Augsburg and the brand is represented in 54 countries. In 2006 Deuter was acquired by the Schwan Stabilo Group – a family owned company with a tradition of 160 years.

We believe that “from little things big things grow” and are committed to efficiently reduce the negative impacts of our actions on man and nature step by step.



KEY EVENTS 2014/15

- **20TH ANNIVERSARY:**
two decades of exclusive cooperation with our producer Duke in Vietnam.
- **"LEADER RATING"**
in FWF's Brand Performance Check
- **ATTENDANCE OF THE FWF'S MULTI-STAKEHOLDER-MEETING AND THE FWF ANNUAL CONFERENCE**
- **EXPERT WORKSHOP OF THE BSI (ASSOCIATION OF THE GERMAN SPORTS GOOD INDUSTRY):**
"Small companies – big responsibilities? Implementing human rights care in small to mid-size companies."
- **"LIVING-WAGE" WORKSHOP OF THE EUROPEAN OUTDOOR GROUP EOG (OUTDOOR FRIEDRICHSHAFEN)**
- **FWF BEST PRACTICE AWARD**
- **MEMBER OF THE "PARTNERSHIP FOR SUSTAINABLE TEXTILES",** a multi-stakeholder fair textile alliance initiated by the German Ministry for Development

"WE JOINED THE FAIR WEAR FOUNDATION FOUR YEARS AGO AND HAVE SINCE ACHIEVED SO MUCH WITH THE HELP OF OUR PARTNER. NOW WE ARE LOOKING FORWARD TO BRINGING OUR EXPERIENCE TO THE PARTNERSHIP FOR SUSTAINABLE TEXTILES AND SUPPORT THE INITIATIVE IN THE IMPLEMENTATION OF THEIR OBJECTIVES."

Katrin Bauer (CR Manager)

A New Textile Alliance

The Partnership for Sustainable Textiles was founded in October 2014 by the German Ministry for Economic Cooperation and Development. The multi-stakeholder initiative has proclaimed the primary objective to bundle expertise and market power to implement social, environmental and economic improvements throughout the entire supply chain. It aims at benefitting from synergies, tackling challenges more efficiently and thus improving the conditions in the producer countries. The alliance has formulated standards for all production stages and the members are obliged to make an active contribution to the implementation of the standards. Deuter has joined the Partnership for Sustainable Textiles in June 2015.



**Bündnis für
nachhaltige Textilien**





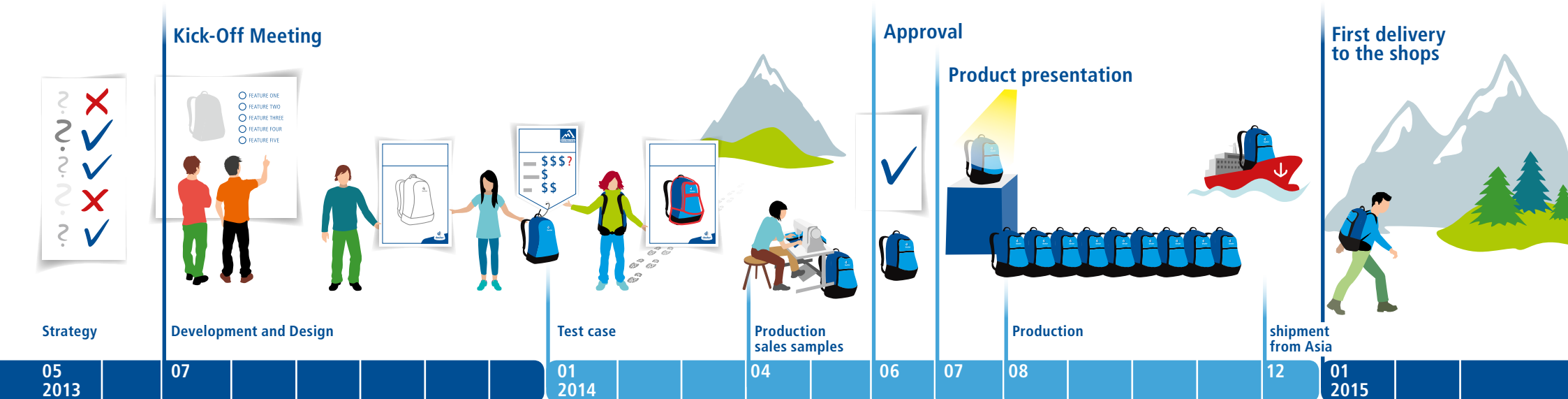
1. VIETNAM

Since 1994 Duke has produced our entire backpack, bags and accessories collection and we are Duke's exclusive customer. This accounts for 90% of our production volume. At the three sites close to Ho Chi Minh today altogether 4210 employees (thereof 3230 women and 980 men) assure the Deuter quality (as at July 2015).

The high standard of our products can only be guaranteed by well-trained, experienced and skilled employees. Staff retention and motivation is therefore vital for us. The Duke employees have a binding employment contract and basic

social benefits such as health insurance and paid holidays. Further benefits include above-average wages, free lunch, a free shuttle service from/to Ho Chi Minh City and the opportunity of free accommodation in company-owned housing for women.

Simplified Production Cycle: Sample main collection 2015





1.1. Implementation 2014/15

In the fiscal year 2014/15 we reached the goals defined by the FWF work plan, where we had focused on work safety in the production sites in Vietnam. We conducted an Occupational Health and Safety (OHS) check as well as a training in the Hoc Mon factory. We were able to significantly reduce overtime with a multi-level approach that included

- 1) a balanced production capacity utilization over the entire year,
- 2) building a third factory in Vietnam and
- 3) increasing the storage capacities in the German headquarters.

The Fair Wear Foundation honoured our effective measures with the Best Practice Award 2015. Yet it is still crucial to continue to actively promote reducing overtime.

1.2. Monitoring

There was no official audit conducted by the FWF in 2014/15 at Duke, but an OHS training session by an accredited FWF OHS auditor at the Hoc Mon factory. A special focus was put on fire safety and personal protective equipment. This was followed by an OHS check at the factory conducted by the auditor and the trained workers. A CAP (Corrective Action Plan) was developed and implemented step by step. The optimizations have also been transferred on the other factories in Vietnam.

All direct suppliers as well as subcontractors were visited at least once in the past report period. However, the monitoring of the subcontractors remains a vital, complex challenge.

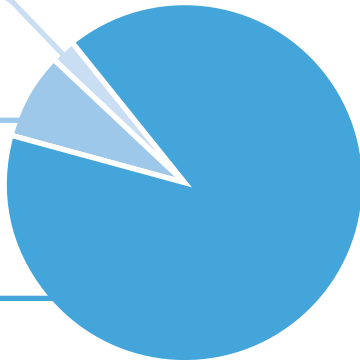
In May 2015 the FWF audit team conducted an audit at a subcontractor of our production partner Duke. Major non-compliances were found regarding juvenile workers. Five young workers aged 17 were working in the factory without special protection as required by local law (e.g. no overtime, no heavy work). The audit team also addressed that in two departments not all workers were paid minimum wage for trained staff in risky conditions – in this specific case working at sewing machines. Duke, Deuter and the subcontractor are working jointly on the resolution of the CAP.

Production volumes per country 2014/2015

Myanmar (< 1 %)

China (9 %)

Vietnam (90 %)



1.3. FWF Complaint System

In November 2014 we received a report by the NGO Viet Labour with headquarters in Australia listing non-compliances in regards to working conditions in two factories of our supplier Duke. The report was based on interviews with a non-representative number of production workers.

We took the Viet Labor information very seriously and immediately involved the FWF to guarantee a transparent and independent investigation of the allegations. The report was handled as an official complaint, examined by the FWF until the end of January and documented in a report available in detail on the FWF website. The complaint refers to the labour standards "Free Choice of Employment", "Payment of a Living Wage" as well as "Safe and Healthy Working Conditions".

The FWF team concluded that some of the allegations could not be confirmed, yet some request improvement. The audits to be conducted in September 2015 will therefore also focus on the results of the FWF investigation. All parties agree that it is vital to strengthen the communication between workers, management and supervisors in the factories. All three factories will therefore participate in trainings of FWF's Workplace Education Programme (WEP).

1.4. Targets 2015/16

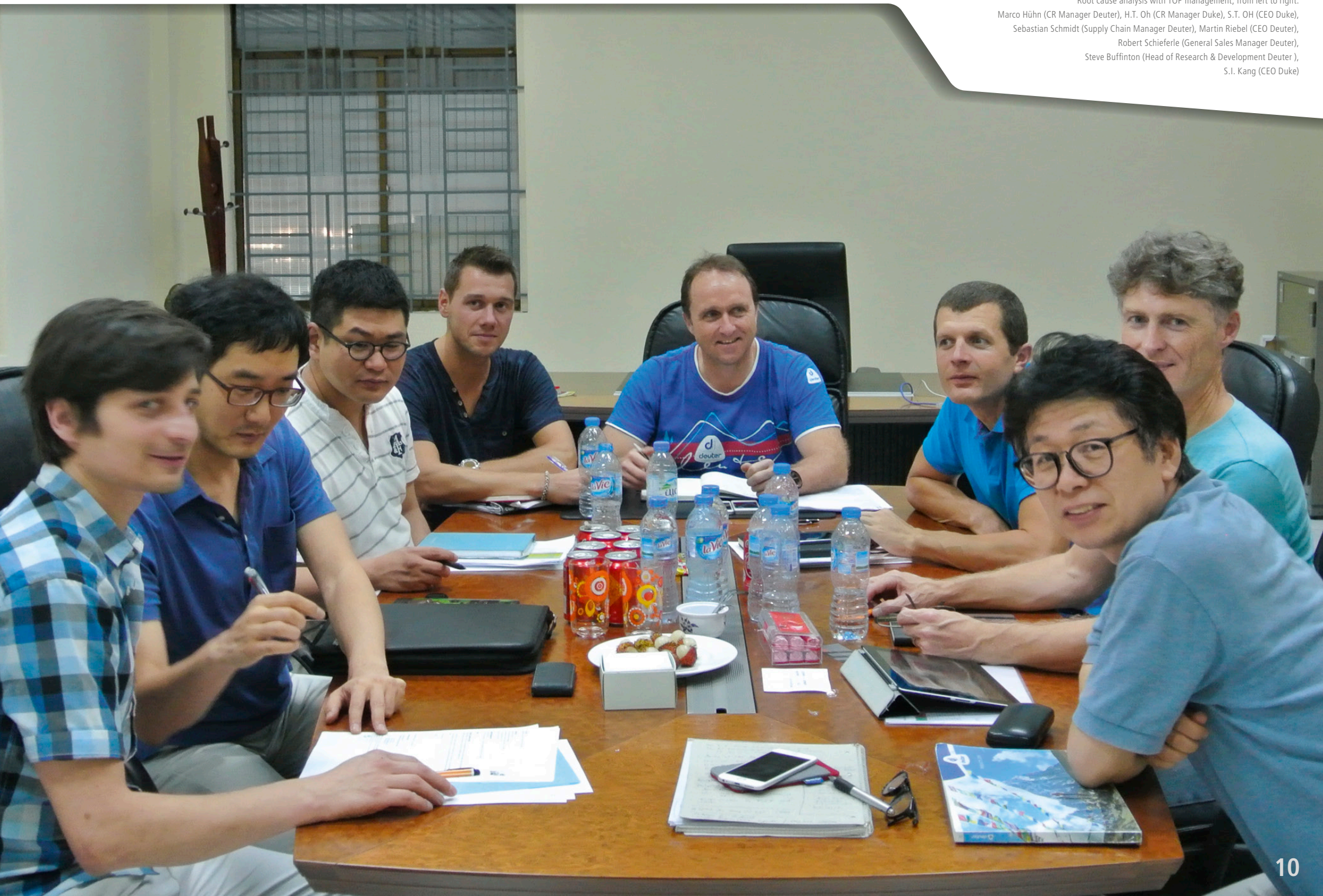
The Viet Labour complaint highlighted the lack of communication between workers and management in the affected factories. Together with our suppliers we therefore decided to conduct a FWF WEP training at all three Vietnamese production sites. To follow-up on the complaint and to close the CAPs all factories will also be audited.

We will further focus on the issue of subcontractor management at Duke. The FWF audit will provide a good foundation to draw conclusions and define next steps.

Deuter production in numbers



Root cause analysis with TOP management, from left to right:
Marco Hühn (CR Manager Deuter), H.T. Oh (CR Manager Duke), S.T. OH (CEO Duke),
Sebastian Schmidt (Supply Chain Manager Deuter), Martin Riebel (CEO Deuter),
Robert Schieferle (General Sales Manager Deuter),
Steve Buffinton (Head of Research & Development Deuter),
S.I. Kang (CEO Duke)



2. CHINA

Our partner in China has been producing our sleeping bags for 12 years now. Today our collection accounts for about a quarter of the production. 260 people are working for Bellmart in the coastal town of Xiamen (thereof 209 women and 51 men as at July 2015). The general living standard in this economic centre is relatively high. Thus employers have to offer respective benefits to ensure staff retention. 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.

2.1. Implementation 2014/15

One of the main targets was the implementation of the Corrective Actions Plan (CAP) and we were able to close it in 2014/15. We identified the root causes of overtime and already moved part of the production to a new factory in Myanmar.

2.2. Monitoring

The FWF conducted a verification audit at our partner Bellmart in June 2014. The follow-up was done jointly by Deuter and a fellow FWF member. Bellmart produces all our synthetic and down sleeping bags (9 % of our production in 2014/15). In the audit non-compliances were found regarding overtime and wages. By moving parts of the

production to Bellmart's new factory in Myanmar we have made a first important step to reduce overtime in Xiamen. We further discussed the root causes of overtime internally with other FWF members.

2.3. Targets 2015/16

Our aim is to reduce overtime at Bellmart's to a reasonable level. By moving step-by-step more sleeping bag styles to the new factory in Myanmar we will unburden the production in Xiamen.

List of suppliers

Country	Supplier	Production Site	City
Vietnam	Vina Duke Corp.	Hoc Mon (Factory 3)	Ho Chi Minh City
Vietnam	Vina Duke Corp.	Cu Chi (Factory 1/2)	Ho Chi Minh City
Vietnam	Vina Duke Corp.	Count Vina (Factory 4)	Tien Giang
China	Bellmart Industrial Co., Ltd	Kingtai Industrial (Xiamen) Co., Ltd.	Xiamen
Myanmar	Bellmart Industrial Co., Ltd	Bellmart (Myanmar) Co., Ltd.	Bago



3. MYANMAR

"I VISITED MYANMAR TO SEE THE NEW FACILITY IN CONSTRUCTION AND AGAIN BEFORE THE START OF THE FIRST PRODUCTION. HOWEVER I ALSO WANTED TO GET AN IMPRESSION OF THE COUNTRY AND THE PEOPLE OF MYANMAR. I'VE BEEN BACK SEVERAL TIMES SINCE AND EACH TIME I WAS IMPRESSED BY THE POSITIVE SPIRIT AND THE MOTIVATION OF THE PEOPLE IN BAGO. THE FACTORY IS STATE-OF-THE-ART AND FULLY MEETS OUR HIGH REQUIREMENTS IN REGARDS TO PRODUCT QUALITY AND WORKING STANDARDS."

Thomas Hilger (Head of Product Design & Development)



Our long-term Taiwanese partner Bellmart expanded its business. Additional to the factory in Xiamen where items for Deuter have been produced in the last 12 years, a new factory opened in Myanmar this year with currently 377 employees (thereof 277 women and 100 men as at July 2015). The FWF Code of Labour was posted in the factory and Deuter staff already visited the facility. The factory lives up to a very high standard especially in terms of OHS. The first production for Deuter took place in June 2015. Production is still at low capacity at the moment, but more workers are being hired and trained continuously.

3.1. Targets 2015/16

To reduce overtime in Xiamen a major part of the production is moved step-by-step to Myanmar. The first production for Deuter took place in June 2015. When the factory has managed to expand to its planned capacity we will audit the factory with a FWF audit team.





Thomas Hilger
(Head of Product Design & Development)
at the new production site in Myanmar.

THE FWF BEST PRACTICE AWARD

"FOR US, THE AWARD MARKS THE PEAK OF A PROJECT THAT WE'VE BEEN INVESTING IN FOR SEVERAL YEARS. WE'VE FOLLOWED A MULTI-LEVEL STRATEGY TO TACKLE THE COMPLEX ISSUE OF EXCESSIVE WORKING HOURS AND WE WERE ABLE TO SIGNIFICANTLY REDUCE PRODUCTION OVERTIME. WE COULD ONLY ACHIEVE THIS WITH THE JOINT EFFORT ON ALL LEVELS HERE AT DEUTER AS WELL AS AT DUKE! GREAT TEAMWORK!"

Marco Hühn (Quality Manager)

We were very happy and proud to win the Fair Wear Foundation's Best Practice Award in April 2015. Twelve brands applied for the annual award, which acknowledges the efforts undertaken by member companies.

The FWF celebrated our „courageous investments“ to improve working conditions at our partner Duke in Vietnam. In 2011 the initiative had documented excessive working hours during peak season. This was mainly accounted for by limited production capacities. We were able to significantly reduce the working hours by evenly balancing production over the entire year, by building an additional production site and by extending our warehouse capacities in Germany – effective measures that have now been honoured with the FWF Best Practice Award.



BEST PRACTICE

WINNER: Deuter

has won the **first prize**
for best practice 2015,
during the Fair Wear Foundation
annual conference 2015.



MILESTONES

And, of course, please do not hesitate to contact us
if you have any questions or queries:
Katrin Bauer – katrin.bauer@deuter.com

- 2006** Founding member of the European Outdoor Conservation Association (EOCA)
- 2008** bluesign® system partner
- 2011** FWF membership
New CR manager position
1. FWF audit at Duke
Duke becomes bluesign® system partner
- 2012** FWF audit at Duke (Hoc Mon, Count Vina)
Bellmart becomes bluesign® system partner
- 2013** WEP training at Bellmart
- 2014** FWF audit at Bellmart
OHS training and audit at Duke (Hoc Mon)
- 2014** FWF verification audit at Bellmart
“Leader Status” in the FWF’s Brand Performance Check
- 2015** FWF Best Practice Award



DEUTER SPORT GMBH

Daimlerstraße 23, 86368 Gersthofen, Germany
Tel. + 49 (0) 821 / 49 87 327, Fax: + 49 (0) 821 / 49 87 339
www.deuter.com