



PYUA SOCIAL REPORT 2018

Reporting period is the financial year

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ABOUT PYUA

Since 2008 PYUA is creating innovative products protecting people from harsh weather conditions. Located in Kiel, Northern Germany, directly at the shore of the Baltic Sea, we are used to the power of the elements.

Sustainability has been the core of the brand since the beginning. We design and develop functional outerwear for people like us – people who respect nature and want to buy ecologically as well as fairly produced garments without giving up function, fun in sports and style.

PYUA is the only functional clothing company for outdoor, sports and lifestyle clothing, which has launched a globally unique recycling system for its garments together with leading recycling companies. All our products can be conveniently dropped off at any clothes donation bin and will automatically be returned to our so called „Closed-Loop-Recycling“. If a PYUA jacket ends up in a donation bin after many years, it will be picked out by hand for further processes. In the end this old piece of clothing is reprocessed into a new piece of PYUA clothing. This doesn't only reduce waste and minimize energy consumption, it also reduces the carbon footprint and hence benefits the environment.

We have strict sourcing rules for fabrics and trims which are either made in Europe or need to be approved by bluesign if coming from Far East. We only use already recycled fibers, we only choose materials that are recyclable again. All our products are free from PFOA and PFC without exception, all our natural fibers need to have the GOTS certification.

PYUA regards social responsibility as one of the most important components if we talk about a sustainable production and manufacturing process. PYUA is an affiliate of the Fairwear Foundation since 2014 and works in close cooperation to verify and communicate our standards and possible improvements. In 2018 we were rewarded with the "Leader Status".

1. SUMMARY – GOALS & ACHIEVEMENTS 2017

In 2018 PYUA changed the sourcing strategy for garment manufacturing:

Beside the established production with long-term partners in low risk countries, PYUA started the first production in Vietnam. As the result of a careful sourcing procedure, we started to work with a partner for high functional outershell garments. Social compliance was one of the main aspects in this process and due to the lack of experience in far east production, we used the FWF tools and advice to be sure to work according to our goals for a fair production.

It might be necessary to mention that we do not move production from Europe to Vietnam. We keep the volume on the same level. The reason to source in Asia was motivated by the perception that the brand is growing but the capacities for high functional garments made in EU are very limited and we have already a critical leverage at our current manufacturers. We initiated an audit by FWF in November 2018.

When talking about growing, we are glad to announce that we re-activated the business relationship with one Portuguese company after consolidation. As mentioned in the last report, the subcontracting in Portugal seemed not very transparent for us. Now, we are focusing on certain products where we can see a clear supply chain due to vertical production places. We will expand in Portugal in 2019.

We are proud to say that we run a completely transparent supply chain in garment making. Without exceptions we know all subcontractors who carried out production processes for PYUA products in 2018.

Another partnership we will expand in 2019 is with a production in southern Germany for knit beanies after we sampled there in 2018.

This mill is not only experienced in this kind of product, they also have all needed production processes in house.

We developed a GOTS program with them as this is the most reliable and comprehensive standard for wool. It does not only control the cultivation of the wool, but also the manifold washing and dying processes until printing the ready product in the end. Integral parts of this standard are also working safety requirements and social responsibility aspects.

End of 2016 we started a close corporation with the buying office Delta Sport Handelskontor GmbH in Hamburg and we even expanded this partnership.

We are happy to have a strong and experienced partner for handling the entire part of ordering and invoicing procedures. It ensures the financing of buying our products and enables us to give pre-payments to our manufacturers, so they can cover material cost and are less dependent on banks.

We are also taking the challenge to train Delta Sport regarding FWF facts by sharing our know-how. We already implemented the „PYUA DNA“ into Delta Sport processes, as this could have an effect on their other customers and their sourcing strategies in the future. Due to our demands, Delta Sport hired one person full time for sustainability and social responsibilities.

In 2017 we started with the setting that all CSR responsibilities lie with the Head of Product. For 2019 we are continuously improving the system and share the position with one more person focusing on CSR.

The product department is still strongly involved in the CSR issues since the team is traveling to all production sites and will also do the on-site work such as questionnaires and audit follow ups.

The FWF tools helped us a lot since joining Fairwear in 2014. Being a small company and still working like a start-up with only 10 staff members in a flat hierarchy means we did not reach perfection in our management systems, but we are working step by step and are always trying to improve in the same way as we expect this from our partners.

2. SOURCING STRATEGY

2.1 Sourcing Strategy & Pricing

a) PYUA produces mainly in low risk countries within the EU.

State-owned and/or governmental entities are strong in most member countries of the European Union. There are strict laws regarding health and safety at work, prohibition of discrimination and guarantee of worker's rights. ILO labour standards are implemented in national laws and are controlled regularly by governmental organizations. Freedom of association and the right to collective bargaining is guaranteed by national laws, trade unions are active in all production countries and there are collective labour agreements effective in all factories producing for PYUA.

For our small team it means that the efforts on controlling our manufacturers is less labour-intensive. PYUA products, which are highly functional clothes with a lot of technical details, require specialized and well experienced workers who are usually getting paid a significantly higher wage than the minimum.

There are still countries even within the EU where the standards are not high enough and which are categorized by FWF as „high risk countries“, as e.g. Romania or Bulgaria, so PYUA decided not to work within these countries.

b) PYUA cooperates with selected partners in oversea countries.

Due to the increased volume and technical needs, PYUA decided to move a part of the production to the Far East. This process was carefully planned and done together with the entire internal and external team. The willingness to cooperate on fair labour standards according to the FWF Code of Labour Practices were mandatory in the sourcing process from the very beginning. All activities and production on site in Vietnam are accompanied by our partner Delta Sport.

The management at PYUA is very aware about the possible problems working with intermediates, such as transparency and pricing policy. Nevertheless, we see relevant advantages in this setup. Most important in this calculation is the available manpower and solvency in Delta Sport, which leads to the required product quality and also has effects on CSR issues: According to our experience, many CSR issues are related to bad timing and inefficiency. In our setup we are optimistic that we work on the best level to follow a reasonable timing and can absorb gaps on both sides. Since PYUA is still directly involved in all CSR procedures and communication and the product team is regularly traveling to the production sites, we still have an good overview of the situation on site.

c) PYUA works with as few production locations as possible.

We want to offer our partners reasonable order amounts. Due to our limited number of pieces, it would make no sense to split our production order to many different locations. Moreover, it is an important approach to become a relevant customer for each factory in order to increase leverage on improving working conditions.

Splitting our orders to many different locations would also increase the organizational work for our product team where time and manpower is limited.

We hardly have manufacturers that are strong in producing the same product group, all of them are specialists for a certain type of processing and workmanship. As we are growing and capacities especially in sampling rooms are limited, we will slowly expand our pool of manufacturers, but basically we have and will keep having main manufacturers for certain products.

d) PYUA is working on establishing long-term partnerships with our manufacturers.

Due to the fact, that PYUA is only in its 11th year now and had several ups and downs during this time, it was not always possible to achieve that. Some corporations were terminated during the years, many manufacturers joined the „team“, and we have a lot of partners similar to an on-and-off relationship. But with several producers we have already been working for many years. Business is built on very open communication, on mutual trust and often friendship.

Our products require a lot of work during development because of high function and performance requirements, special design and workmanship. It helps a lot to work with people we know well and who are used to our products and speak the same „language“ product-wise as we do. It takes time and effort to reach this point, so long-term business is not only a matter of trust and responsibility but makes all processes smoother and avoids misunderstanding and problems.

e) Several points are considered when PYUA starts business with a new production partner.

The number of high-innovative factories who have the skills and experience, technical conditions and special machines to produce our products is limited. The competition for production capacities between brands does not leave many options – neither within Europe nor in Far East.

Most first contacts are made through our network or through information of material suppliers. Besides quality standard, technical opportunities and specialized processes, working environment and conditions are an important part to discuss. We are specifically searching for manufacturers who have experience with FWF because of other member customers or experience with similar standards and/ or organizations. We prefer manufacturers who already went a big part of the road towards fair and socially responsible production, or who are open, proactive and willing to comply to these matters. We also evaluate the locations regarding transport routes and logistics options for both environmental reasons and accessibility, as we often travel to visit our manufacturers.

Last but not least there are soft facts, not less important, just as - how do we feel with the people we meet?

f) As an ecorrect premium brand, price is secondary to quality and performance and the ecological content of our products.

Our idea is, that everybody in the supply chain should earn a fair payment or margin – this includes the workers, factory managers and even shareholders in our mills as well as PYUA brand and the retail partners. While facing some pressure to offer our products for a market-relevant price, we have a complex situation in pricing.

We negotiate all prices in close corporation with our manufacturers, piece by piece. This includes the cooperation with Delta Sport as our intermediate partner and buying office. Starting with a realistic target price from our side, we expect a fair and open discussion on each garment, if our target is not matching the manufacturers quotation.

From this point pricing is an integral part of the product development. We are always interested in knowing the true costs of our garments and the reasons why sometimes the quotations are not working with our targets. We are open to discuss amendments on design and workmanship to reduce labour minutes in order to increase efficiency of a product or to change materials to lower the cost.

Other ways to adjust the prices such as increasing the order quantities are always an option.

2.2 Organisation of the sourcing department

The advantages of a small company are direct communication and quick decisions. Only a few people are involved in many processes. This gives everybody a good understanding for the whole picture.

The work of the Product Manager includes the product development during sampling and placing programs to our different production locations. Since 2017 the on-site work for social responsibility and FWF issues are handled by the Product Management.

Our Purchase Department does not only take care on order procedures but is responsible for material sourcing and ecological matters.

The PYUA CEO as the director of the product is deeply involved in all decisions regarding manufacturer relations which includes CSR. The goal to act as a fair company contains to the basic strategy of the top management.

When deciding which products will be developed together with which manufacturer, we always build reasonable and suitable programs regarding capacity, technical opportunities in production, quality standard and share of materials.

our manufacturers are specialized for a certain product range, so there is no relevant competition within our manufacturer portfolio. As explained later, as a premium brand we are aiming for top quality and advanced technologies – not for the lowest margin.

After the pre-sales period we know about the sales figures. Management, Head of Sales and Head of Product decide in close corporation which styles will make it into production. We consider our customers' needs regarding re-order possibilities, our target of reducing the risk of stock and material leftovers and the goal of giving reasonable order quantities to our manufacturers. Finding a satisfying solution for all sides in this area of conflict represents the most challenging part of the process.

2.3 Production cycle

PYUA designs and develops two collections per year. Since the foundation of the brand we have a winter collection which was growing a lot during the last years. In 2016 we also introduced a summer collection on a much smaller basis.

Both collections offer sports and outdoor garments for men and women, in the winter season we focus on skiing garments.

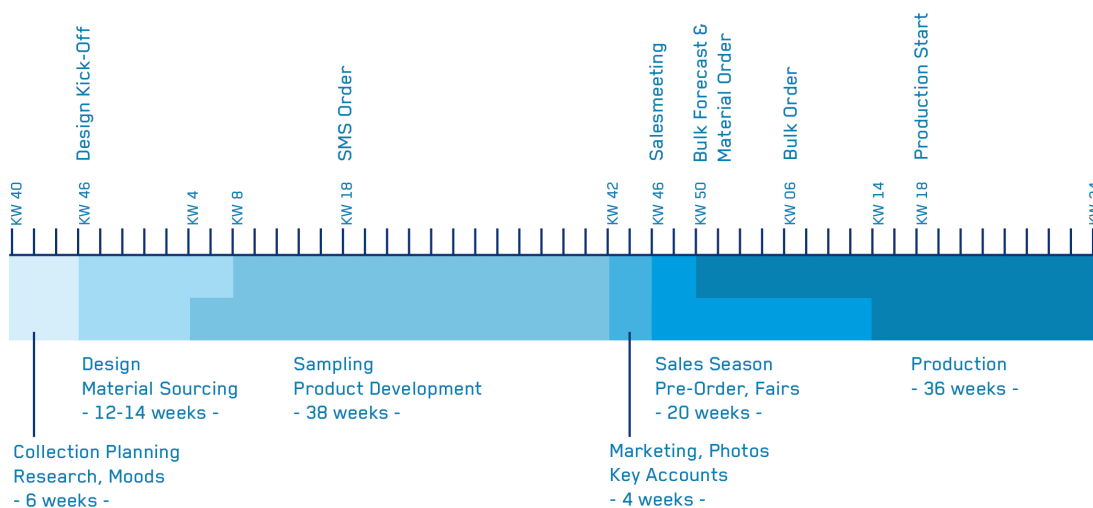
The development and production of functional outdoor products requires proper planning and needs to start very early due to long fabric lead times for laminated performance materials. Scheduling is always based on the time our partners within the supply chain need for their processes. We ask for lead times at fabric and trim suppliers as well as our production locations. Based on their information and our needed delivery dates for samples and production we are building the timeline for every season. We consider some additional time for unexpected situations and delays as well as local events like Chinese New Year and summer holidays in Portugal and Estonia, where the factories are closing for several weeks.

We start working on a new winter collection two years before the products will be delivered to the shops, so every partner in our supply chain has enough time to prepare and work on their relevant processes. PYUA takes a high risk by starting so early, because information to base on the new concept, as sales figures, trends and innovations is little at that time.

Nevertheless, we cannot change this procedure in order to make sure that all partners involved can give their best for our products - without the pressure of harsh deadlines. This reduces the risk of excessive overtime as well as seasonal short-term contracts at peak seasons and ensures a higher standard of working safety during production processes.

Also, we book the fabrics before placing bulk orders to our manufacturers. Especially in winter season, where Chinese New Year blocks nearly one month of production time, we are forced to book at least the greige (fabric before dyeing and finishing) already before Christmas.

Again, we take a high risk as at that time we do not have any pre-orders from customers confirmed, we just have collected some feedback from first presentations at our key accounts. Based on this feedback, our experience and feeling for the certain styles and colors, we calculate a forecast and confirm fabric quantities.



In case of a delay of materials it can be agreed to switch from sea freight to air or sea/air transportation. We don't prefer this solution because of ecological reasons but taking pressure from production has a higher priority for us.

Another tool to take pressure from production are priority lists that are provided for every order. Herewith the suppliers get the information about which styles and programs have stricter delivery dates as others early in the process. In case of any unexpected delay, they are able to react fast and independently based on reliable information.

2.4 Supplier relations

Since we know that the market for suitable manufacturers sharing the “PYUA spirit” in terms of quality, quantity and sustainability is growing but still not relevant in garment production, we are used to meet our partners on same level aiming to build up an alliance within a competitive market on brand- and on industry side.

Due to our limited resources, we pick those partners carefully and always with the idea for a long-term business. To realize this, we need to have the same vision in terms of ecological and social responsibility as the most important topics for the future.

With some manufacturers we work already for many years, with others we just started.



In 2018 the main manufacturers for taped garment are in Vietnam and Estonia and for midlayer and baselayer products we are working with one in Lithuania. We were running a small program in Poland.

We re-activated our long-term partner in Portugal with sampling for 2019 and we started in Germany for GOTS certified beanies as explained above.

2.5 Integration monitoring activities and sourcing decisions

Our way of close collaboration based on trust and communication makes regular visits mandatory.

The product team usually visits all production locations twice a year. It is not only easier to discuss important things face to face, it also builds mutual understanding for the rest of the year when communication mainly goes via email.

Part of every visit is the factory tour. Even if we know some factories by heart after the years of cooperation and would find our way through the sewing lines with eyes shut. We walk through all the different areas such as warehouse, cutting, sewing lines, packing and sample room.

During every tour we check if the workers information sheet including FWF complaints contact is (still) displayed at a highly frequented place.

Country	% of total FOB	signed questionnaire & CoC	Workers Information Sheet	Visisted in 2017	Supplier since	Complaints	Sub-contractors
Estonia	30%	yes	yes	2x	2010	no	no
Lithuania	28%	yes	yes	2x	2014	no	2 factories for special process, no CMT
Vietnam	40%	yes	yes	1x	2018	no	2 factories for special process, no CMT
Poland	2%	yes	yes	2x	2009	no	no
Portugal	only sampling	yes	yes	1x	2010	no	no
Germany	only sampling	yes	yes	no	2018	no	no

Even if many details cannot be part of an objective rating, our team gets a good feeling if the atmosphere is relaxed or fraught within the workers or management. Without speaking the local languages, we gather such impressions while looking on obvious details, for example the design of the lines and offices.

3. COHERENT SYSTEM FOR MONITORING & REMEDIATION

We did an audit in November 2018 with our partner in Vietnam and involved Delta Sport as our Buying Partner. It was the first audit for us, and we learned a lot about the whole process from the local FWF auditing team. It came out that in general the level of compliance to local laws and the requirements of fair labour standards is very high at this production location, but still there were some findings during the audit. We are working on the CAP since early 2019, in close corporation with the factory and our intermediate.

In 2018 we introduced a standardized annual factory check-up for all existing production locations in low risk countries. This check-up includes:

- **Updating Factory Information:** A document based on the FWF questionnaire is filled together with factory management and CSR management on site in the factory. Basic information such as number of workers, capacity, leverage etc. are updated; further points such as changes on minimum wages in the certain country, general wage level in the factory, improvements on working conditions, rebuilding and many more things are discussed and documented
- **Talking about every single labour standard from the Social Code of Conduct,** to gather updates and raise awareness
- **Health & Safety:** We make a special factory tour through all parts of the production and check all the health and safety issues provided in the FWF checklist more detailed and in writing.

The check-up is not meant to control our suppliers in low risk countries more than needed, but to sit down together to discuss all social compliance issues and related topics, to pick them out as a central theme.

When visiting a new production location, the matter of CSR and FWF is one of the most important parts of the meeting.

We inform our new partner about our membership and the general work and principles of the Fairwear Foundation. We explain what requirements this includes, what actions it takes for us and for them. Our experience is that nearly all manufacturers are very open and interested, compliance and transparency is never a problem. Often, they already have experience with FWF or similar standards.

4. COMPLAINTS PROCEDURE

We didn't receive any complaints in 2018.

The workers information sheet is posted in all production locations. This is regularly checked by our product team during visits. The workers information sheet informs about the PYUA membership at FWF in local language. It contains the contact details for complaints at FWF, where workers can inform about overtime or cancelled holidays or other problems regarding workers right related to PYUA orders.

If there would be a complaint, we would get informed by FWF about the case. We would then try to figure out what has been the reason for the problem. If it should be discovered that we were responsible because of improper planning, changes at short notice or similar reasons, we would re-check our processes and strategies even more to avoid such consequences in the future. For all other causes, we would discuss with suppliers how the situation could be improved to prevent it from happening again.

5. TRAINING & CAPACITY BUILDING

5.1 Activities to inform staff members

All of our current 10 staff members are well informed about our FWF membership. We are currently developing a guideline and material for internal training for new staff and sales presentations with deadline in Summer 2019.

5.2 Activities to inform agents

We put the Hamburg based Company Delta Sport Handelskontor GmbH in 2017 in the position as an intermediate. Beside their function as a buying company, we cooperate very close on product development and communication. One major impact is the professionalization of the production planning and timeline settings. As they took over a lot of communication with our manufacturers and the follow-up on production timeline, the topics of social responsibility and FWF requirements are discussed very often.

Delta Sport runs own offices in several production counties such as China and Vietnam. Their own CSR team is located in Hamburg Headquarter and travels regularly to PYUA production places.

Our intermediate in Portugal is very well informed about FWF requirements and issues, they act very pro-active and joined a seminar themselves a few years ago already. They are also experienced as they have other customers being FWF members as well.

5.3 Activities to inform manufacturers and workers

Relevant social topics are always part of the meeting with our manufacturers and we are following the guidance of FWF regarding checklists and action plans. For CSR issues we have direct communication to all production locations, even if these are handled by intermediates.

During visits it is regularly checked if the workers' information sheet is posted in the factory.

We are planning to have a workers educational training on site in late 2019 or early 2020 according to the capacities of the FWF.

6. TRANSPARENCY & COMMUNICATION

PYUA publishes the results of the annual Brand Performance Check on our website, we are proud on having achieved the "Leader Status".

This is the second time we publish our social report since 2017.

We show our commitment to the FWF Partnership according to the FWF communication guideline at all products since we achieved the Leader Status in 2018. Our sales force gets a regular update for relevant CSR topics and a presentation during the annual sales meeting. Further, we make FWF information as a part of our courses held by our team during the on-site sales training for the floor staff at our retail partners.

We always aim for visibility of our commitment on regular fairs like ISPO, Outdoor and events like glacier openings and commercial festivals.

7. STAKEHOLDER ENGAGEMENT

We focus on our FWF membership and are using a lot of tools FWF provides to support its members with information, such as country studies with risk assessments, articles about several topics as wage or health and safety issues as well as instructions to assess the quality of audit reports.

Because of our membership we have the chance to meet other FWF stakeholders such as NGOs and other member brands - dedicated people are fighting for the improvement of working conditions, brands of all sizes join forces and share their experience to bring things forward. Thanks to these colleagues for your support and input.



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