

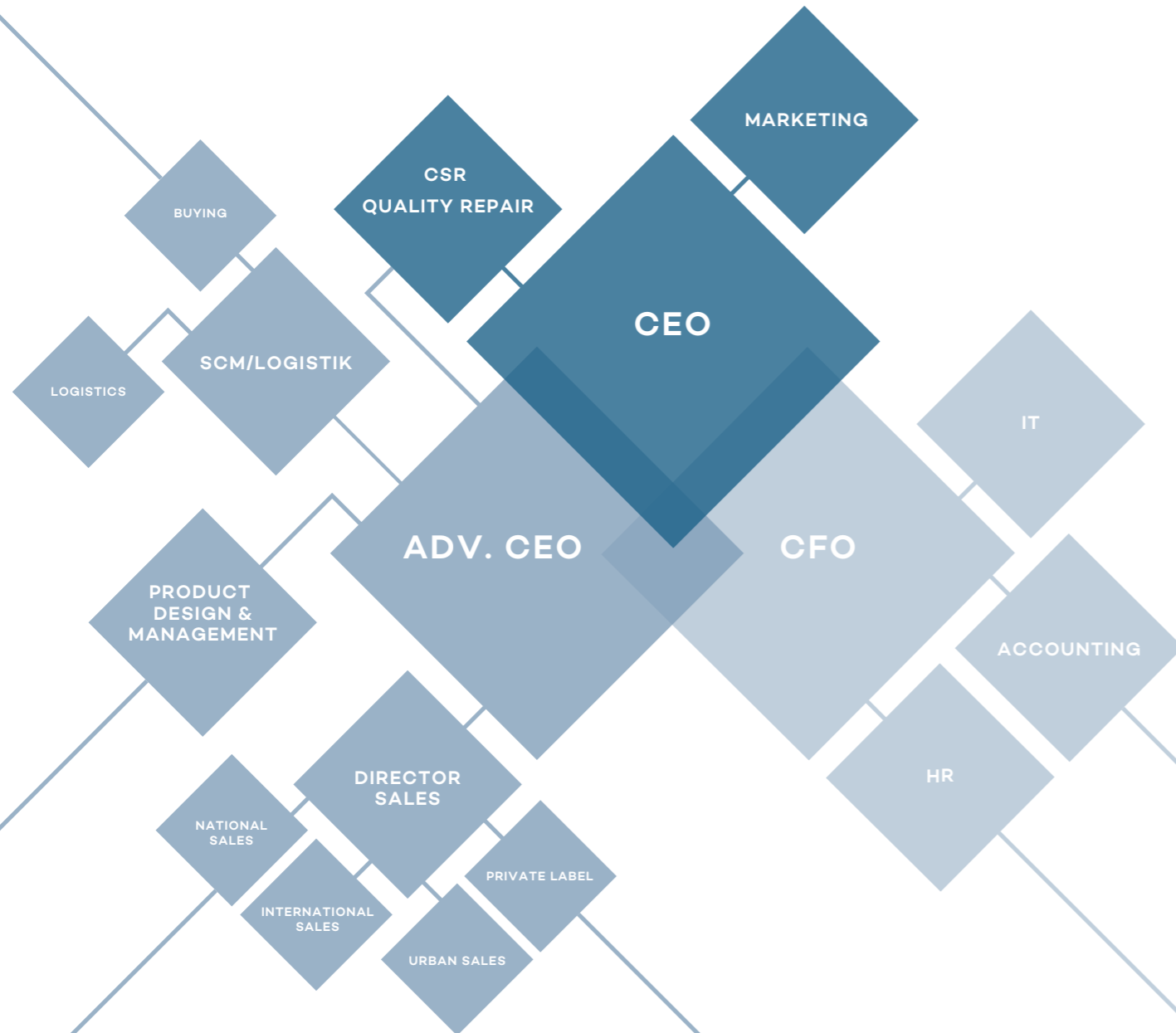


SOCIAL REPORT

JULY 2018 - JUNE 2019



ORGANISATIONAL CHART



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FOREWORD

DEAR READERS,

This report for the 2018/19 financial year is the seventh Deuter Social Report for the Fair Wear Foundation and represents our continued efforts together with our long-standing business partners at implementing its Code of Labour Practices and thereby improving working conditions throughout the supply chain in a sustainable way.

Sustainability is one of the most important issues of our time. The actions of today will affect our own future and that of generations to come. Not only our customers and business partners but society as a whole is becoming more aware of sustainability, and this increasingly presents challenges for Deuter as a company as well as for our business partners throughout the supply chain.

It is not just about creating the perfect product, in the right quantity, and with the right fit and design. It's about deciding what materials products should be made of and making sure they are manufactured in the right working conditions. And it's about planning what will happen at the end of a product's 'lifecycle'. It is up to us to recognise the impact that we have and try to minimise it, to improve working conditions and adopt a holistic approach to create sustainable products.

That is what we strive for all the time and can already look back at our work with a degree of satisfaction at what we've achieved. In 2019, Deuter will not use any more materials that contain PFCs in its production line. For the fifth year in a row, Deuter has been awarded Leader Status. In the last year, the lifespan of over 3,500 backpacks was extended thanks to our Repair Service.

None of this would be effective if we didn't take the matter so seriously and put all our efforts into remedying it, or if we viewed it as a marketing strategy by which we are simply able to sell more products. We hope that the transparency that is demonstrated in our Social Report will emphasise our sincere commitment to becoming a sustainable business.

With this in mind, I would like to invite you to read the Deuter Social Report and get a better idea of what goes on behind the scenes.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Martin Riebel'.

Martin Riebel

1. KEY EVENTS 2018/2019

LEADER STATUS¹

Leader Status confirmed in the FWF Brand Performance Check for the 2018/19 financial year.

PARTICIPATION AT THE GERMAN FWF STAKEHOLDER MEETING

Stakeholder engagement, sharing of knowledge and progress reporting with other member companies, NGOs and trade unions.

PARTICIPATION AT NUMEROUS WORKSHOPS AND MEETINGS OF THE PARTNERSHIP FOR SUSTAINABLE TEXTILES

Development of basic and advanced training schemes for chemicals management and environmental protection in the lower supply chain. Implementation of initial pilot training scheme in China for fabric suppliers lower down the supply chain.

Involvement in the Partnership's new "Living Wage" initiative. Implementation of 'ACT self-assessment tools'¹ to evaluate Deuter's purchasing practices as the basis for future improvements.

PRESENTATION OF DEUTER'S PRE-PRODUCTION STRATEGY AT THE GERMAN PARTNERSHIP FOR SUSTAINABLE TEXTILES DUE DILIGENCE WORKSHOP.

Providing input for the due diligence process of member companies and suggestions for scalable measures to improve working conditions throughout the supply chain, in particular addressing the issue of reducing overtime.

RESEARCH ON IMPROVED EFFICIENCY AND PRODUCTION PROCESSES

Research project carried out together with the Fraunhofer Institute and our manufacturing partner Duke on how to prevent bottlenecks and excessive overtime by improving efficiency and planning.

IMPROVED TRANSPARENCY IN THE LOWER SUPPLY CHAIN, SUPPLY CHAIN SITE VISITS

Lower supply chain supported with information and expertise on improving chemicals management and environmental performance, and by production of training videos² by the aforementioned Partnership.

Visits to subcontractors in Vietnam with interviews and spot checks carried out.

PARTICIPATION IN FWF STUDY ON 'GENDER BASED VIOLENCE' IN VIETNAM

During a study carried out by the FWF together with Care International³ and CDI⁴ on the subject of gender based violence, the Cu Chi manufacturing site that belongs to our partner company Duke, was visited and referenced among other factories.

WEP COMMUNICATIONS TRAINING MYANMAR

A comprehensive WEP (Worker Education Program) training course was planned for the 18/19 financial year and prepared by the supplier. Due to restructuring at both FWF and Bellmart in Myanmar, the course will now start in September 2019. The intensive course will span approximately one year and be split over several in-person meetings. The course will be delivered to the factory management team and HR department, as well as to factory workers and union representatives.

FIRE AND SAFETY AUDIT DUKE VIETNAM

In October 2018, a comprehensive Fire & Safety Audit was carried out at Duke's Cu Chi site in the company of a highly experienced specialist from the Fair Wear Foundation, Dr Erik Wiersma⁵. One of the objectives of the audit was to provide FWF auditors with further training on this important topic. The Fire & Safety Audit was carried out at the same time as the FWF Social Audit.

SITE MODERNISATION AT DUKE

By closing Duke's oldest production site, Hoc Mon, in June 2019 and subsequently relocating production capacity to Count Vina, the company's employees are now working in a bright, safe and pleasant environment. Findings from the above-mentioned efficiency project have already been put into practice.

NO SUBCONTRACTOR INCREASE IN VIETNAM SINCE LAST YEAR

Our partner company, Duke, came to an agreement with Deuter not to award any contracts to new subcontractors.



CHECKS THAT MEMBERS RESPECT HUMAN RIGHTS IN THEIR SUPPLY CHAINS (IMPLEMENTATION OF COLP)

TRAININGS & STAKEHOLDER INVOLVEMENT

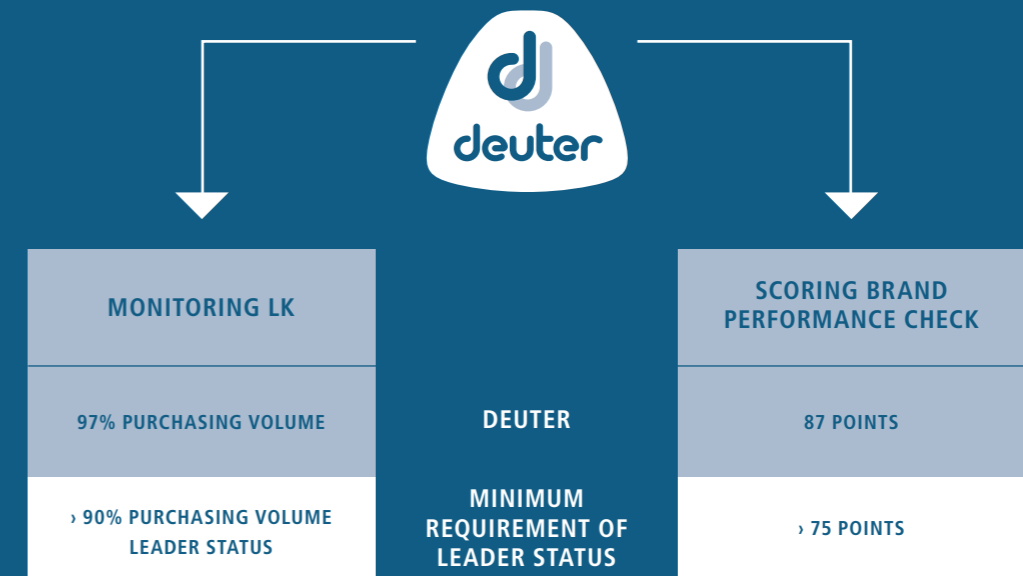
PROVIDES WORKER COMPLAINT HOTLINES IN 15 PRODUCTION COUNTRIES

CHECKS THE WORKING CONDITIONS IN FACTORIES

CODE OF LABOUR PRACTICES (COLP)

- 1 No forced labour
- 2 No discrimination in employment
- 3 No child labour
- 4 Freedom of association and the right to collective bargaining
- 5 Payment of a living wage
- 6 Reasonable hours of work
- 7 Safe and healthy working conditions
- 8 Legally-binding employment relationship

FWF STATUS SINCE 2013: LEADER



¹ „Action, Collaboration, Transformation“ <https://actonlivingwages.com/act-news-on-pps/>

² <https://www.youtube.com/watch?v=7M94lywiaGk#action=share>
<https://www.youtube.com/watch?v=d7ot9k6Vn50#action=share>
<https://www.youtube.com/watch?v=1rlmeyERYxg#action=share>

³ <https://www.care-international.org>

⁴ <https://www.caredropsinternational.org>

⁵ <https://bd.linkedin.com/in/jwfwiersma>

2.

GOALS FOR THE 2018/19 FINANCIAL YEAR

Recommendations for Deuter made by FWF in their Brand Performance Check 2017/18 led to us setting ambitious targets for the 2018/19 financial year.

1 REDUCE THE NUMBER OF SUBCONTRACTORS



2 TRANSPARENT PRICING WITH SLEEPING BAG SUPPLIER



3 WAGES BASED ON THE ANKER BENCHMARK STUDY



4 SUPPORTING CONSTRUCTIVE WORKER-MANAGEMENT DIALOGUE



5 INCLUDE PRODUCTION SITE'S PRINTING SUPPLIER IN ITS MONITORING SCHEME



6 SUBCONTRACTOR AUDITS



GOAL 1:

Deuter to reduce the number of subcontractors in order to allow effective monitoring and better improvement of working conditions.

There was no rise in the number of subcontractors used by Duke in Vietnam compared to last year. In fact, their number actually fell slightly due to the closure of one of its sites and the subsequent termination of subcontractor arrangements within that area. Duke informed these companies about the relocation in good time so that they could adjust production. Going forward, the number of subcontractors needs to be further consolidated and closely monitored to ensure acceptable working conditions throughout the supply chain. Steps should also be taken to ensure that any further restructuring of production in Vietnam does not result in additional subcontractors being assigned.

GOAL 2:

Deuter to verify the implementation of transparent pricing with its sleeping bag supplier.

Bellmart sleeping bag factory in China will be inspected in the 2017/18 financial year, which will provide current wage levels. However, ongoing discussions with Bellmart and other FWF members using this factory indicate that wage levels are above the legal minimum.

The Myanmar government regularly increases minimum wages to an agreed minimum through consultation with trade unions and industry associations. Discussions are also held between the trade union at Bellmart and the factory management team to adjust wages and increase bonuses and overtime pay.

GOAL 3:

Deuter to implement a strategy to raise wages based on the Anker Benchmark Study.

Wage adjustments are always taken into account in the pricing of Deuter products, through negotiations between Deuter senior management and Bellmart. The substantial increases in purchase price in 2018 reflect higher material costs as well as legal minimum wage increases in the manufacturing countries. In Myanmar and China, after a minimum wage increase last year of 33% and 13.3% respectively, no further increases were made. In Myanmar, further wage increases are expected at the beginning of 2020. The minimum wage represents the basic salary on which piecework payments and productivity bonuses are calculated.

We have managed to get our partner Duke to put together a planning and procedures task force in order to make pricing more transparent in the future – especially with regards to wage costs. This will help to better determine the parameters for achieving Living Wage benchmarks and will also help with planning to avoid overtime. If this policy proves successful, we will look at ways of adapting it for our sleeping bag supplier's production sites.

GOAL 4:

Deuter to continue its efforts to remediate more complex issues like a lack of constructive worker-management dialogue and to continue supporting its suppliers in implementing constructive worker-management dialogue and ensuring freedom of association.

This was a key topic for the Myanmar site in the 2018/19 financial year. The audit carried out clearly showed there was room for improvement in communication between the union and factory management. The Deuter CSR team met with union representatives at the site to identify key issues and understand any shortcomings. The first step was to schedule regular meetings between the union and factory management. Experts from the FWF played a mediating role. As a further measure for improvement, an extended WEP scheme with a focus on communication was devised and scheduled. Training will be carried out in the course of the 2019/20 financial year.

GOAL 5:

Deuter to include the Myanmar production site's printing supplier in its monitoring scheme.

This small factory with 30 employees is located on the premises of the main factory but is run by a company that specialises in textile printing. This supplier receives regular visits from the Deuter CSR team. Its management team took part in training on how to verify the age of its workers last year. They completed and signed the FWF agreement and have displayed the Code of Labour Practices (CoLP) on-site with information on FWF complaints procedures and contact details to ensure that workers are informed about their rights and the FWF complaints hotline.

GOAL 6:

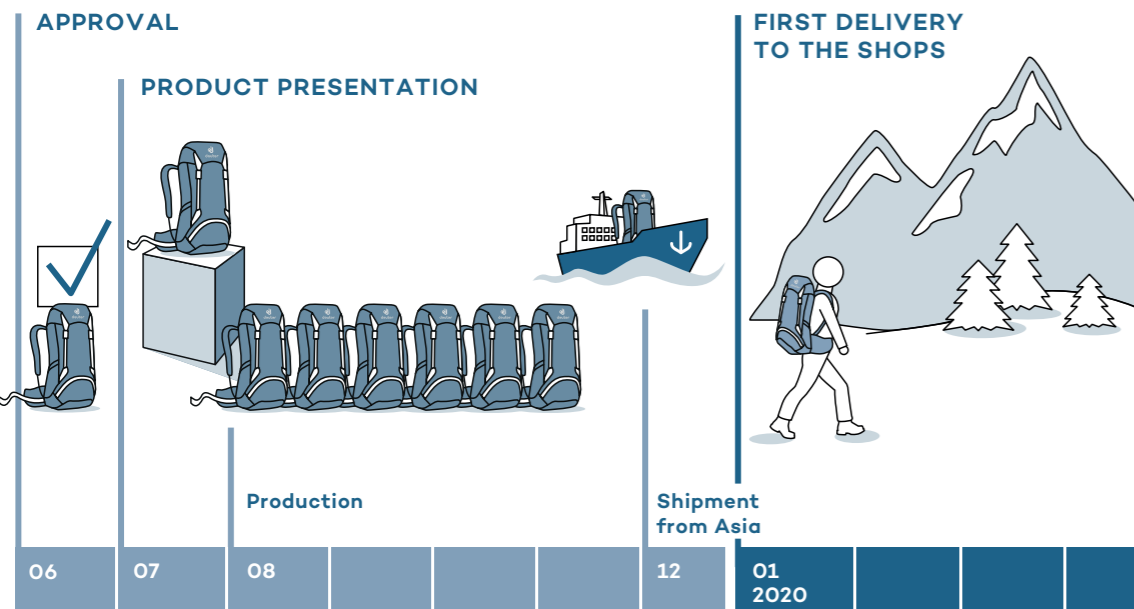
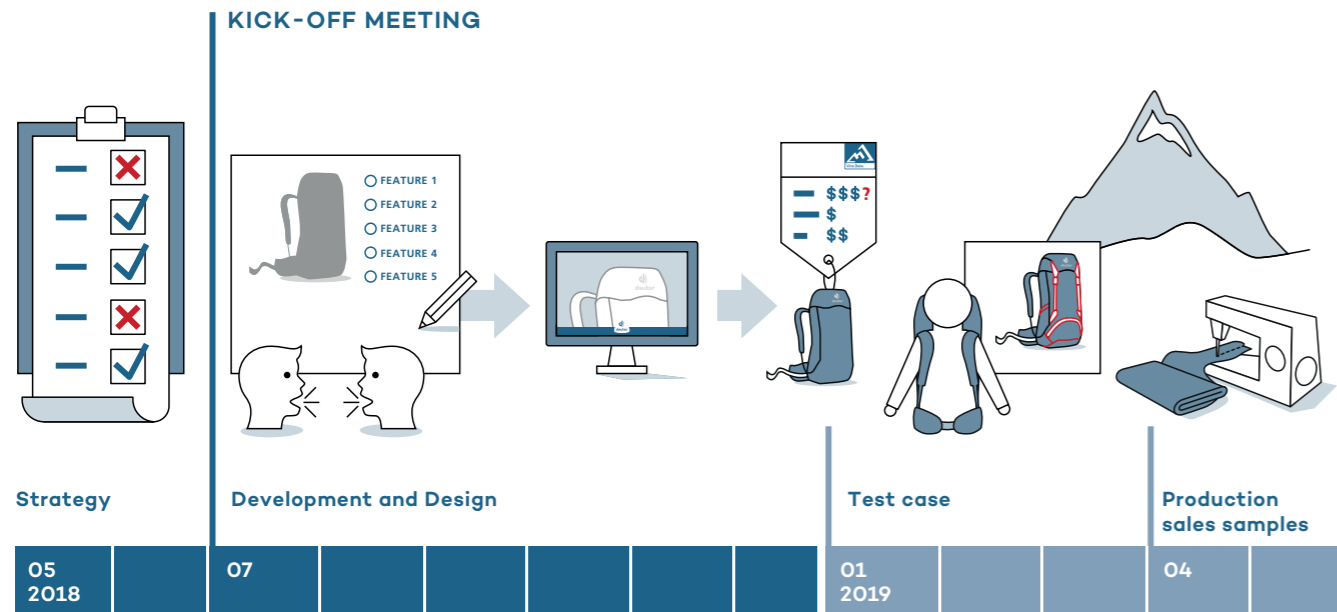
Deuter to follow up on its subcontractor audit in Vietnam.

In April, a printing supplier for Duke in Vietnam was inspected by the FWF audit team. The report flagged up several issues that required attention and further monitoring by the Deuter CSR team.

In particular regarding wage payments and the documentation that goes with them.

3. SOURCING STRATEGY

SIMPLIFIED PRODUCTION CYCLE: (SAMPLE MAIN COLLECTION 2018)



3.1. SOURCING STRATEGY AND PRICING

Deuter believes in long-term partnerships based on trust and mutual respect. This helps us foster high levels of motivation, creativity, quality and reliability – from our head office in Gersthofen through to our retailers and, of course, our manufacturing partners.

We have been working with our backpack manufacturer, Duke, since 1991. Duke has produced our entire backpack collection since 1994 and produces for Deuter almost exclusively. We have been working with our sleeping bag manufacturer, Bellmart, in China for 16 years, and in Myanmar since 2015.

Our manufacturers calculate the price of our products being developed based on Deuter's design and material requirements. Prices are adjusted during the prototype phase to match targets. We also work together on the product itself to achieve a competitive price point. During this process Deuter does not apply pressure, nor does it beat down prices. Purchasing practices like benchmarking the price of different suppliers in order to find the cheapest offer is not the way Deuter conducts business with its long-term partners. The cost of materials as well as local wages are taken into consideration during these pricing negotiations. We know that our partners offer fair prices, because both sides strongly believe that trust is the best foundation and always pays off. Since we rely on our suppliers in terms of know-how and quality and are – to a certain extent - dependent on them, we need to know that their business is running smoothly and is in good shape.

3.2. SOURCING ADMINISTRATION

In terms of purchasing materials from the lower supply chain, Deuter is not directly involved, but nominates suitable suppliers taking into consideration quality, sustainability and lead times. Changes in materials must be made with suitable lead times to allow timely purchasing, well before production begins, and in order to eliminate any negative effects on production schedules and working hours.

Deuter does not have a dedicated procurement or sourcing department because we do not swap and change suppliers. It is the Supply Chain Manager and the Director of Products, Production and Logistics that are responsible for production planning and work closely together with our suppliers. We have a strategy in place should the situation arise where we require a new supplier. In such cases, there has to be close collaboration with the CSR Department.

3.3. PRODUCTION CYCLE

Deuter produces one main collection a year, plus a reduced winter range. The main collection is showcased in the summer at the OutDoor international sports trade show in Munich, Germany. The winter range is showcased in February at the ISPO trade show, also in Munich. In fact, we only change a third of our collection each year. Most of our products remain part of the collection for several years with only minor modifications. For instance, one of our classics, the Trans Alpine pack, has been in our collection for over 16 years.

Deuter's sourcing strategy is to obtain all of its products from just two suppliers:

**SINCE
2015**

WE HAVE BEEN WORKING WITH
BELLMART IN MYANMAR

WE HAVE BEEN WORKING
WITH OUR SLEEPING BAG
MANUFACTURER, BELLMART,
IN CHINA FOR 16 YEARS

**16
YEARS**

**SINCE
1991**

WE HAVE BEEN WORKING WITH
OUR BACKPACK MANUFACTURER,
DUKE, SINCE 1991

3.4. SUPPLIER RELATIONS & SOURCING DECISIONS

During the financial year in question, Deuter did not employ any new suppliers nor did it terminate any relationships with any current direct suppliers. Our backpack supplier, Duke, did not employ any new CMT (Cut, Make & Trim) subcontractors in the year 2018/19. The shutting down of the Hoc Mon site resulted in the termination of working relationships with 5 subcontractors.

The process of selecting new subcontractors, should they be required, is the responsibility of Deuter's partner Duke because Deuter has no direct business links with these smaller factories. Deuter and Duke have developed a system over the years that helps evaluate any new and existing subcontractors and ensures the workers in these factories have access to the FWF complaints hotline.

The system is as follows:

1. Duke CSR staff visit the supplier and assess conditions on site, completing in an assessment form
2. The FWF agreement must be filled in and signed by the subcontractor's management team
3. The FWF Code of Labour Practices (CoLP) must be displayed in the local language including the FWF complaints hotline. Documentation must be provided by the Duke CSR Team
4. Deuter to check documentation every year and improve the process if necessary
5. All of the above must be confirmed before any orders are placed

Bellmart does not subcontract any CMT work in China or Myanmar. Printing and embroidery suppliers are informed about FWF requirements and display the CoLP/ worker info sheet with details of the complaints hotline.

3.5. INTEGRATING MONITORING MEASURES AND SOURCING DECISIONS

Deuter's sourcing strategy is to obtain all of its products from just two suppliers: One supplier for backpacks, packs and accessories, and one for sleeping bags. These partnerships have been in place for several decades and have resulted in a close bond and mutual dependency between Deuter, Duke and Bellmart (in particular with our backpack supplier, Duke, that manufactures the majority of Deuter products).

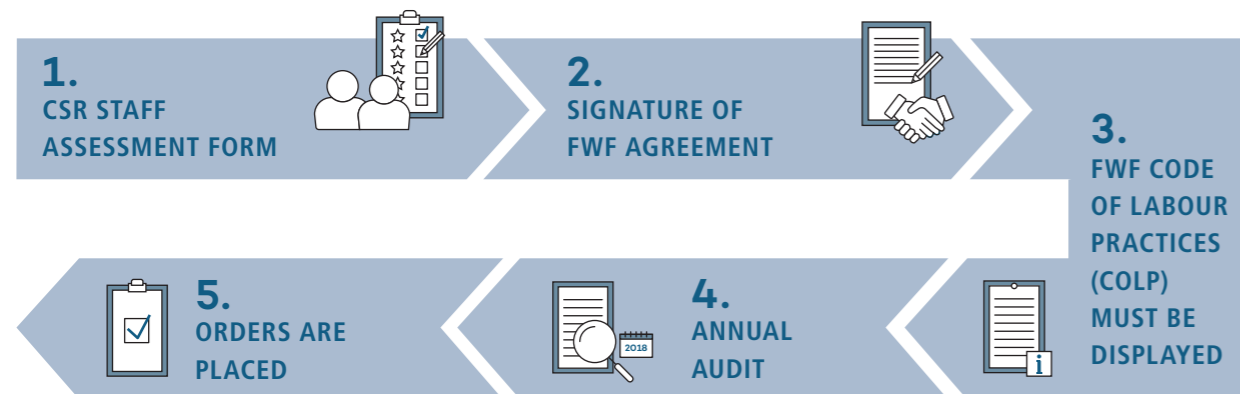
Deuter's commitment to these partnerships has a direct influence on Deuter's sourcing decisions. For example, when sleeping bag supplier Bellmart decided to relocate its production of synthetic sleeping bags to Myanmar, because of difficulties with the factory in China, Deuter supported Bellmart but also carefully evaluated the risks of using Myanmar as a sourcing country. These risks were minimized by implementing enhanced monitoring and training – especially on age verification.

Another example from Vietnam: Deuter counts for almost all of Duke's production capacity. We guarantee enough orders throughout the year to keep all of its production lines busy and adjust our planning to suit the factory requirements as best we can, and vice versa. In order to meet our needs as well as the demands of its factories, Duke subcontracts small sections of its production if necessary (e.g. backpack components such as shoulder straps), to avoid production bottlenecks and to speed up production processes. Subcontracting inevitably entails an increased risk of non-compliance with the FWF CoLP, which Deuter counters through monitoring measures. -> see 1.4.

In the case of the termination of a business relationship with a direct partner, for whatever reason, Deuter adopts the responsible exit strategy requirements issued by the FWF.

SUBCONTRACTOR SELECTION

Deuter does not have a dedicated procurement or sourcing department because we do not swap and change suppliers. The process of selecting new subcontractors, should they be required, is the responsibility of Deuter's partner Duke because Deuter has no direct business links with these smaller factories.



360° CORPORATE RESPONSIBILITY AT DEUTER

Social responsibility and environmental protection are deeply embedded in the Deuter company ethos. It's part of who we are and guides our daily efforts. 360° means achieving sustainability from the very start of a product's life – from the recycled and sustainable materials and the manufacturing of our high-quality products together with our established partners – right the way through to our repairs service. We take a holistic approach to product development and are fully accountable for our supply chain. We are supported along the way through our collaboration with sustainability initiatives and the application of recognized standards.

DEUTER HAS BEEN A MEMBER OF THE PARTNERSHIP FOR SUSTAINABLE TEXTILES SINCE JUNE 2015.

The partnership is an initiative set up by the German government in October 2014. Its members from business, civil society, standard organisations and trade unions have set out to improve the social, environmental and economic conditions throughout the textile supply chain. For more information visit: www.textilbuendnis.com

BLUESIGN®

The bluesign® system is the world's strictest standard for environmental protection, occupational safety and consumer protection throughout the textile industry. As part of the bluesign® system partnership since 2008, we are actively working to make our products and the entire supply chain more resource-efficient and environmentally friendly: from the design right through to delivery.

- 100 % T1-supplier (direct production partners) bluesign® systems partner
- bluesign® products: ASTRO-series, Kikki

RESPONSIBLE DOWN STANDARD

To be Responsible Down Standard (RDS) certified, the entire supply chain must be fully traceable – from the chicks to the finished sleeping bag – and the strictest animal welfare standards upheld. And so, to ensure that species-appropriate rearing procedures and animal welfare standards are sustained throughout our supply chain, since June 2015 we've exclusively used down and feathers from certified suppliers.

4.

COHERENT SYSTEM FOR MONITORING AND REMEDIATION

To allow effective monitoring of Deuter's production locations, the CSR team plans its audits in accordance with FWF regulations. Audits are scheduled at intervals of 3 years at most, to get a clear understanding of the situation in each factory. Deuter exclusively uses local FWF audit teams to ensure the highest standards are upheld. This is particularly important for us, since off-site worker interviews are a key aspect of these audits. We consider this to be best practice, as this procedure allows better insight into the actual situation and might highlight issues that were not spotted during the audit within the factory.

Corrective action plans resulting from these audits are followed up by the Deuter CSR team with e-mails or Skype conferences, and on-site visits from Deuter employees. In the case of Bellmart, we share follow-ups and audits with other FWF members to minimize the communication and workload on all sides. Combined leverage is also likely to elicit compliance more quickly and more sustainably. During the remediation

process, Deuter takes into account FWF country studies as well as legal regulations relevant for the manufacturing location. Recommendations and requirements that are listed in the FWF audit report also form part of the remediation process.

Audit reports form part of the regular meetings (min. twice per year) between senior management from our suppliers and Deuter. This practice adds weight to audit results and follows up on corrective action plans.

In Vietnam, where subcontracting takes place, Duke is responsible for monitoring working conditions at its subcontractors' factories as described in point 1.4. Duke has a designated CSR team at its headquarters and at its production sites. Duke's CSR staff rank highly within the management hierarchy and are therefore able to address issues effectively with senior management.

4.1. VIETNAM

Vietnam is in Southeast Asia and covers an area of approximately 331,210 km². It has one of the highest population densities in the world but most of its 95,261,021 inhabitants live along the coast of the Chinese Sea and the Gulf of Tonkin. The government officially recognises 54 ethnic groups, with the Viet being the largest group at 85.7%. The official language is Vietnamese, but English is gaining in significance, especially in larger cities like the capital Hanoi, or in Ho Chi Minh. In some areas French, Chinese or Khmer are spoken.

With a GDP of USD 241 billion and a GDP of USD 2,551 per capita in 2018, Vietnam is considered a middle-income country (MIC). Vietnam's top export goods are phones and telephone components (USD 45.7 billion), textiles and clothing (USD 31.8 billion), computers and computer components (USD 25.9 billion) and footwear (USD 14.6 billion)⁶.

4.1.1. DUKE CORP. FACTORIES IN VIETNAM OVERVIEW

FWF-Nr.	Factory Name	Process	City	Last Audit	Last WEP Training	Last Complaint	Visited 18/19
2442	Count Vina Co. Ltd.	CMT	Tien Giang	10.09.2015	26.08.2015	01.07.2017 resolved	yes
2421	Cu Chi Co. Ltd.	CMT	Ho Chi Minh	19.10.2018	27.08.2015	n/a	yes
2405	Vina Duke (Hoc Mon) Co. Ltd. Shut down in June 2019	CMT	Ho Chi Minh	16.09.2015	28.08.2015	12.12.2014 resolved	yes

⁶ http://www.auswaertigesamt.de/sid_5AADAD62617EF7DD9ACEEFA01689ADA/DE/Aussenpolitik/Laender/Laenderinfos/Vietnam/Wirtschaft_node.html
<https://www.cia.gov/library/publications/the-world-factbook/geos/vn.html>



Country profile Vietnam

Language: Vietnamese, English, French, Chinese, Khmer

Religion: 81.8% none, 7.9% Buddhist, 6.6% Catholic, 1.7% Hoa Hao, 0.9% Cao Dai, 0.9% Protestant, 0.1% Muslim

Capital: Hanoi

Form of government: Socialist Republic

Area: 331.210 km²

Population: 95.261.021

Currency: Vietnamese Dong

Literacy rate: 93 %





Fire and Safety Audit.
Auditors: Dr. Erik Wiersma, Mrs Trung (FWF),
Duke CSR Manager Mr Tien



Interviewing women employed at one of the subcontractors, with Mrs Trung (FWF) the auditor



Fire Safety drill at Cu Chi

4.1.1. DUKE CORP. FACTORIES IN VIETNAM

Duke Corp. is Deuter's main manufacturing partner and largest one. Today, approximately 3,630 employees (2,790 women and 840 men — as at June 2019) work at two sites near Ho Chi Minh to ensure consistently high quality standards for Deuter. This year, one of the production sites was closed down and its production capacity transferred to a very modern site.

Duke is also a bluesign® system partner and therefore regularly checked by bluesign® advisors to ensure good OHS (Occupational Health & Safety) conditions and environmental performance

4.1.2. MONITORING AND REMEDIATION 2018/19

It was an eventful year for our main manufacturing partner, Duke. Some key projects and remediation measures were implemented in order to achieve Duke's ambitious goals for the year.

On the monitoring side, an FWF audit took place at one of its factories, with a special focus on Fire & Safety.

With regard to production planning and wage development, a study carried out together with the Fraunhofer Institute to improve efficiency at Duke drew some important conclusions and highlighted further measures required. Working so closely together led to some important findings both at Duke and at Deuter.

A comprehensive study on gender based violence was also carried out in Vietnam. Because most of the workers in the textile industry are female, Duke also took part in this important study.

In October 2018, monitoring visits were held at 4 of Duke's subcontractors. CSR representatives from Deuter and Duke, along with FWF employees informed the subcontractors about the FWF Code of Labour Practices and the work of the Fair Wear Foundation.

4.1.3. FIRE & SAFETY AUDIT

A Fire & Safety audit was carried out at the Cu Chi site during this financial year. The audit was carried out by Dutch buildings and factory safety expert, Erik Wiersma, within the framework of the regular FWF audit. Mr Wiersma played a key role in the Bangladesh Accord and, due to his extensive experience, was able to offer fresh perspectives and improvement suggestions for fire and buildings safety at the Cu Chi site. The Deuter team were present at the audit.

The action plan which came out of the audit is currently being implemented.

Deuter has successfully reached an agreement with Duke about subcontracting. Duke has not taken on any new subcontractors and by transferring production from the Hoc Mon site to the modern Count Vina site, Duke brought to a close its existing arrangements with local subcontractors in a responsible way. The Count Vina site is not working at full capacity, so if any more capacity is required, despite the most careful production planning, then more staff can be engaged to remedy this.

Another important point was the follow-up of the audit at the printing subcontractor conducted in April 2017. After receiving the report, the focus was on:

- Payment of a living wage
- Wage documentation
- Health and safety at the factory

After initial problems, most of the CAP (Correction Action Plan) requirements are now in place. However, wage development for the workers, an important component of the sustainability strategy with this indirect partner, is still an issue. There is a monitoring visit planned for this financial year, which is likely to take place in November.

In conclusion, we can report that satisfaction levels in general for workers at the Duke factories in Vietnam seem relatively high. The proportion of workers returning to work after the new year's celebrations of 2019 was 96.2% which is a good indicator of a happy workforce and competitive wages. In Vietnam, the Chinese New Year is traditionally a time to look for better job opportunities.

4.1.4. EFFICIENCY STUDY AT DUKE

Manufacturing exclusively for one single customer has great advantages when you have a close working relationship, but it also presents its challenges. Both parties — Duke and Deuter — wanted to realise the potential for increased efficiency of using an ordering system with longer planning periods that puts less pressure on production facilities and does away with the 'push' effect that usually exists in competition-based supply structures.

The renowned Fraunhofer Institute was enlisted as an independent partner for the study.

Using a sample model, the experts from the Fraunhofer Institute collected data at both the Deuter headquarters in Gersthofen and at the production sites in Vietnam. In this way, they were able to closely examine the production flow and planning procedures. The results of this analysis can easily be adapted to all of the other product groups.

The study provided a great deal of insight and in the 2018/19 financial year, the first steps were already taken on both sides to implement these improvements.

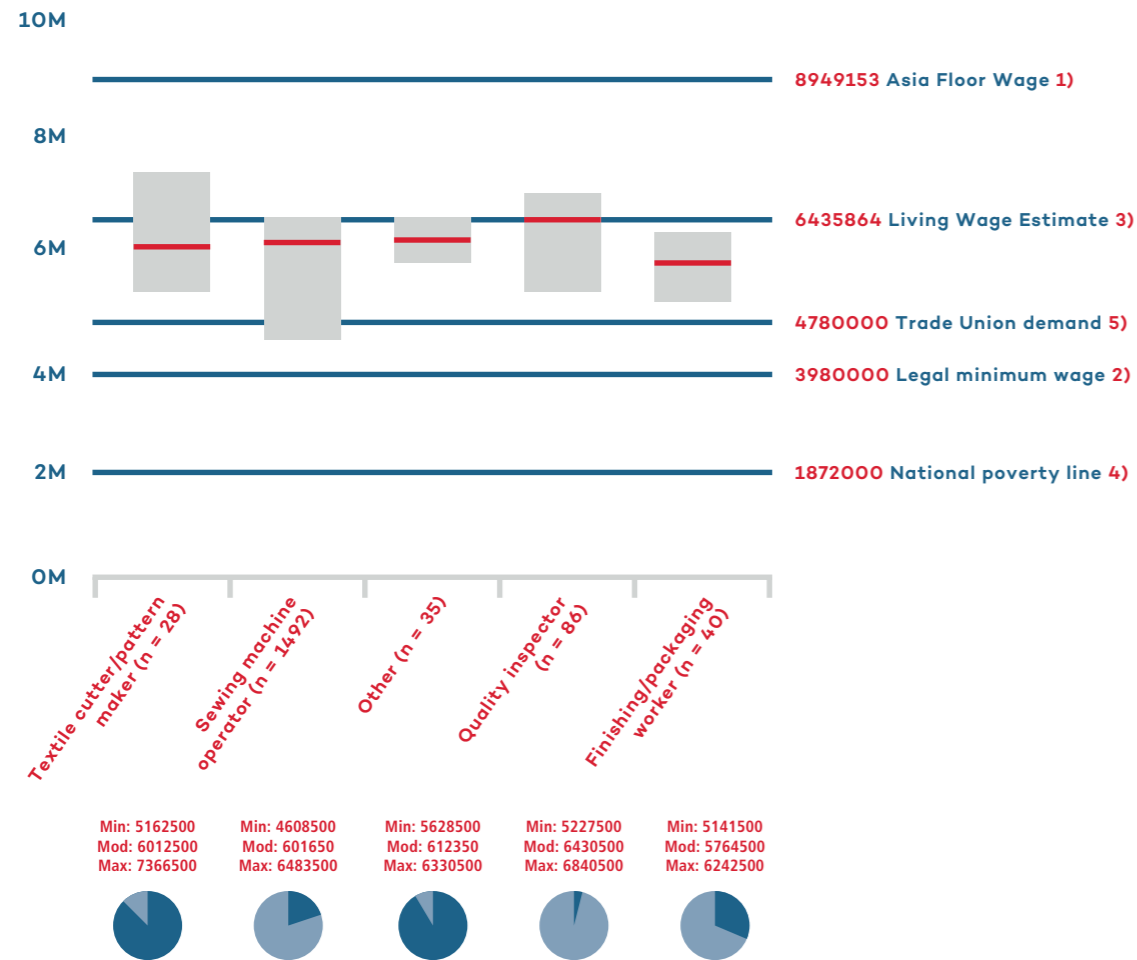
Important steps were taken towards more transparent communication and data transfer in particular in the areas of costing, production flow and planning. This will have a direct influence on wages, overtime and production efficiency.

4.1.5. PARTICIPATION IN STUDY ON GENDER BASED VIOLENCE IN VIETNAM

The study, entitled 'Violence and harassment against women in the garment sector in Vietnam', looked into the abuse and harassment of female workers in textile factories. It was carried out together with Care International, CDI and the FWF. Based on interviews with 763 female textile workers and discussions with female textile workers in three provinces, the study established that harassment is an issue and identified its contributing factors.

4.1.7. WAGE LADDER

Factory: Vina Duke Cu Chi, Vietnam
Regular wage and benefits
Currency: Vnd



- 1) Asia Floor Wage as of 2005
- 2) Legal Minimum Wage region 1, national government, as of Jan 2018. Refers to monthly salary paid to untrained employees doing the simplest tasks in normal working conditions, ensuring full working days as standard days in the month and completing the assigned work.
- 3) Living wage estimate using the Anker methodology. Based on a family of 4 (2 adults, 2 children) 1,78 average worker per family, 48 hours per week, 26 working days per month for the Ho Chi Minh City area.
- 4) World Bank poverty line wage for 2015.
- 5) Minimum earnings needed to cover food, non-food and childcare VGCL national trade union - region 1 - 2016

Legend
Male
Female

In summary, the study showed that violence and harassment are greater if:

- There is discrimination and unfair treatment of workers on the basis of gender, age, migration status, level of education or if women are in temporary employment.
- There is production pressure, involuntary or excessive overtime and long working hours as well as low wages, which can lead to a disrespectful working environment and a culture of violence and harassment.
- There are no policies, procedures or complaints systems in place (or knowledge of, and confidence in) to combat cases of violence and harassment and prevent the occurrence of further incidents.
- A high societal tolerance of violence and harassment against women which is reflected in workplace behaviour.

The contributing factors above are intrinsically linked to global supply chain policies and practices that affect wage payments, sourcing practices, production pressure and national and international employment standards and employment rights.

The report, written as part of the overall study about Duke, does not identify any of the above factors at their production sites. The values⁷ that Deuter and Duke have instilled over 25 years of working together have resulted in a tolerant and friendly working environment. Mr Tien, the Duke CSR Manager in Vietnam, stated in an interview: "Duke is very much guided in their policies by Deuter's values".

By adopting a responsible and collaborative approach to planning of order times and quantities, overtime can be reduced to a minimum by

avoiding what are known as "production peaks". This leads to reduced time pressure and production pressure and the resulting effects on the working atmosphere. Staff retention is unusually high for Vietnam, with many staying on for over 5 years. They are employed on a permanent basis and receive their wage payments reliably and on time. The FWF "Code of Labour Practices" that Duke and Deuter have implemented is the basis upon which a fair working environment is achieved. The process of carrying out the study has led to increased awareness at both Duke and Deuter. The study also provided constructive recommendations on how to deal with the issue in future. The next steps could be, for example, hosting a workshop for the workers, producing information material and establishing a policy that addresses the issue with the attention and sensitivity it deserves.

4.1.6. FWF COMPLAINTS PROCEDURE

During the 2018/19 financial year, no complaints were issued via the FWF Hotline from any of the Vietnam production sites. There is always access to the FWF complaints procedure and the CoLP is clearly displayed at each of the sites.

4.1.7. VIETNAM WAGE LADDER

The latest study and audit of wage documentation at the Cu Chi factory showed that during the reporting period average basic wages, without overtime, were close to the Living Wage as defined by the Anker benchmark. With the statutory minimum wage rising by 5% in 2019, the wages of all workers will be adjusted accordingly. In 2020, minimum wages are expected to increase by a further 5.5%



⁷ <https://www.deuter.com/DE/de/ueber-deuter.html>



Country profile China

Languages: Chinese, Mandarin

Religions: 52.2% none, Buddhist 18.2%, Christian 5.1%, Muslim 1.8%, folk religion 21.9%, Hindu < 0.1%, Jewish < 0.1%

Capital: Peking

Form of government: People's Republic

Area: 9.597.000 km²

Population: 1,38 billion

Currency: Renminbi

Literacy rate: 96%



Sources:
<https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>
http://www.auswaertiges-amt.de/DE/Aussenpolitik/Laender/Laenderinfos/China/Wirtschaft_node.html

4.2. CHINA

At 9.5 million km² the Chinese mainland is about as big as the United States, making it the fourth-largest country in the world. Its border is 22,133km long, the longest of any country in the world. Although China has the highest population count, its population density is lower than that of most other Asian countries. The majority of the population lives in the eastern part of the country. The Chinese government officially recognises 56 ethnic groups, with Han being the largest group (92%).

The official languages are Chinese and Mandarin. China is the largest economic power at the moment with a GDP of USD 12.8 trillion (\$ 8,643 per capita)⁸. Its main export goods are computers (USD 173 billion), communications equipment (USD 165 billion), phones (USD 109 billion), microchips (USD 65.7 billion) parts for office machinery (USD 42.8 billion) and textiles and apparel (USD 109.9 billion)⁹.

4.2.1. BELLMART FACTORIES – CHINA

Deuter teamed up with Bellmart 16 years ago, to develop down and synthetic sleeping bags together in its factory in Xiamen, China. In the beginning, this is where Deuter's entire sleeping bag range was produced. In 2015, its synthetic fill sleeping bags were shifted to Bellmart's production site in Myanmar, leaving only down sleeping bags in Xiamen. Bellmart is a bluesign® system partner and is therefore regularly checked by bluesign® advisors to ensure good OHS (Occupational Health and Safety) conditions and environmental performance. The factory is also RDS (Responsible Down Standard) certified.

4.2.2. MONITORING AND REMEDIATION 2018/19

By opening a production site in Myanmar, our partner Bellmart was able to take pressure off its production site in Xiamen. In the past, overtime has been a recognised issue at the Chinese production site. Now, all Deuter sleeping bags with synthetic fill are made in Myanmar. Bellmart employs 209 workers (162 women/ 47 men) in Xiamen (as at June 2019). The production site specialises in the production of down sleeping bags and is also a bluesign® system partner. Currently Deuter only takes up a very small percentage of the production capacity at Kingtai (in the lower single-digit range).

Deuter carries out joint audits, training and remediation measures at the Kingtai factory together with one other FWF member. In addition to regular meetings at trade fairs, meetings are also held to discuss the current situation and future plans.

In June 2017, the FWF conducted a second audit at Xiamen. The audit was carried out together with the other FWF member. Implementation of the corrective action plan was also conducted together with the FWF member and, following consultation, was chiefly driven by them.

Overall it was asserted that several improvements had already been made in terms of workplace safety at this factory. One critical factor remaining is the fact that workers are still not able to elect their own workers' council. Since some of the workers were not aware of the FWF or the Code of Labour Practices, a WEP (Worker Education Program) was carried out in 2018.

Its aim was to teach the workers and management about the Code of Labour Practices and the work of the Fair Wear Foundation, in particular its complaints procedure.

The workers welcomed the training. Feedback showed that participants were happy with the content as well as the delivery.

76% rated the content of the training as very good, 21% as good. All participants rated the duration of the training as "good" or "better". The training gave them better knowledge about employee rights, the FWF Code of Labour Practices and its complaints procedure.

The fact that the Living Wage (Asian Floor Wage Benchmark) has not yet been reached, makes it clear that the issue needs to be discussed further. However average wages for a 40-hour week with special benefits are considerably above the average wage in the textile industry in this part of China. An increase in the legal minimum wage of 13% was executed in 2017. This also has a positive impact on production-related performance and bonuses, and therefore overall wages. In point 4.2.4 wage structures are dealt with again in more detail and a comparison with the Wage Indicator shows that the wages paid are in line with the living wage.

4.2.1. OVERVIEW

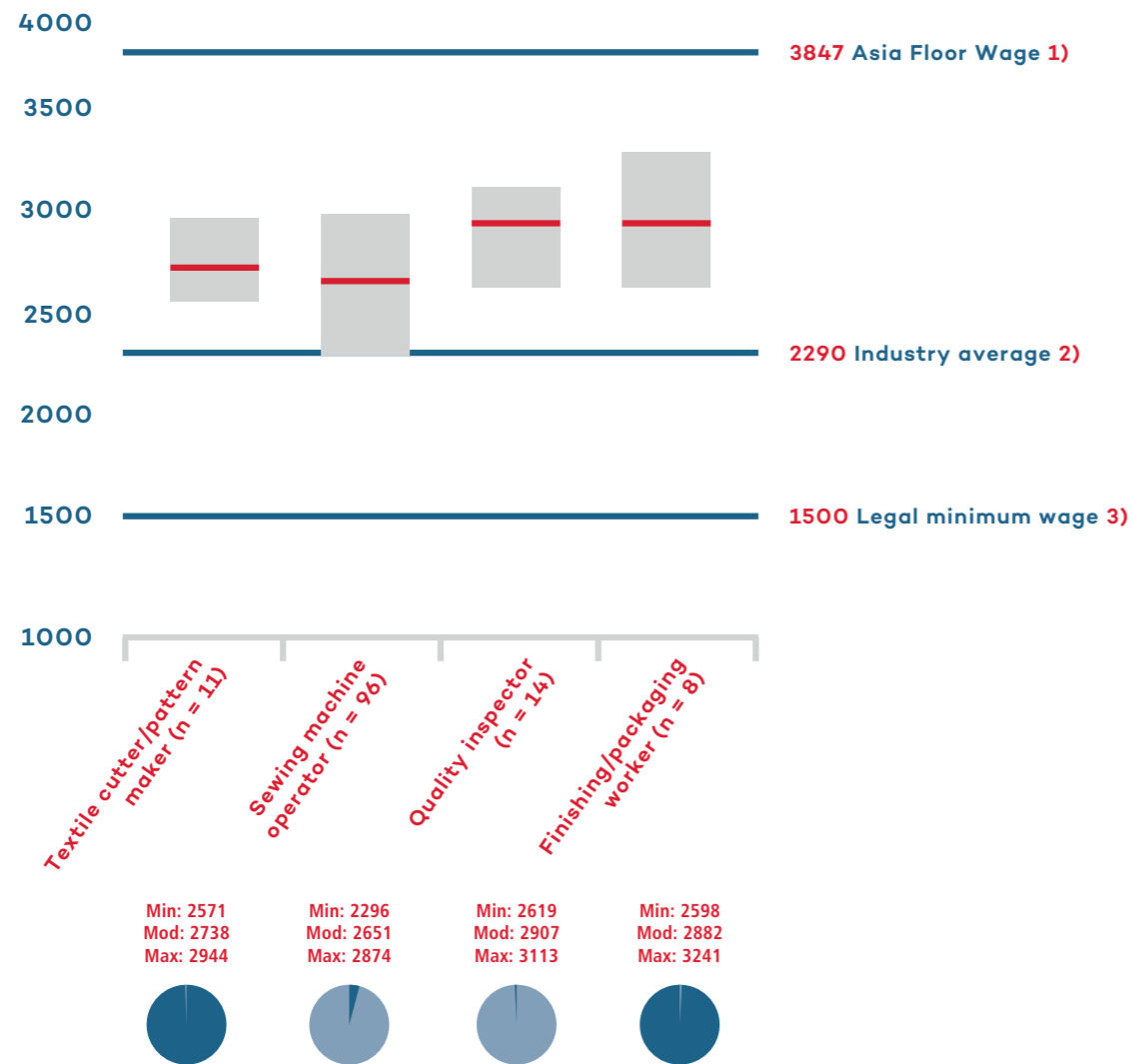
FWF-Nr.	Factory Name	Process	City	Last Audit	Last WEP Training	Last Complaint	Visited 18/19
2448	Xiamen Kingtai Industrial Co. Ltd.	CMT	Xiamen	15.06.2017	05.07.2018	n/a	yes

⁸ <https://www.auswaertiges-amt.de/de/aussenpolitik/laender/china-node/-/200468>

⁹ <https://shenglufashion.com/2018/08/16/wto-reports-world-textile-and-apparel-trade-in-2017/>

4.2.4. WAGE LADDER

Factory: Kingtai Industrial (Xiamen) Co., Ltd (Bellmart), China
 Regular wage plus benefits
 Currency: Cny



1) Asia Floor Wage as of 2015
 2) National average for 8 hour working day for migrant workers (National Bureau of Statistics of China)
 3) As of 1 Jul 2015, as defined by the local government

Legend
 Male
 Female

Overtime, however, was still identified as a persistent issue despite having eased the burden on production and improved the planning, and despite implementation of a new ordering procedure. In a 6-day working week, working hours of up to 69 hours were identified during the peak season. However, Deuter only has limited influence due to the fact it only takes up a modest proportion of the site's capacity. Currently, over half the capacity is taken up by a brand that is not an FWF member and is not willing to cooperate on this matter, nor to discuss wages or production planning.



4.2.3. FWF COMPLAINTS PROCEDURE

No complaints were received from this factory during the 2018/19 reporting period.

4.2.4. WAGE LADDER CHINA

The latest study and audit of wage documentation at the Xiamen Kingtai Industrial Co. Ltd. factory showed that during the reporting period average basic wages without overtime were getting closer to the Living Wage. In particular after the legal minimum wage was raised 13% in 2018. Taking into account the research of the online Wage Indicator¹⁰ for September 2019, for an average family with 1.6 children and 1.7 earners in China it states that CNY 3650-5730 is required to live. The previous summary table of wage levels shows the income of one individual person. The wage shown should therefore be multiplied by 1.7. Since Xiamen ranks among the Chinese cities with a comparatively average cost of living, a family's financial requirements could be assumed to be CNY 4690. With an average income of CNY 2700 in the sewing/cutting departments of the factory, multiplied by a factor of 1.7, the figure of CNY 4590 almost corresponds to that of the Wage Indicator.

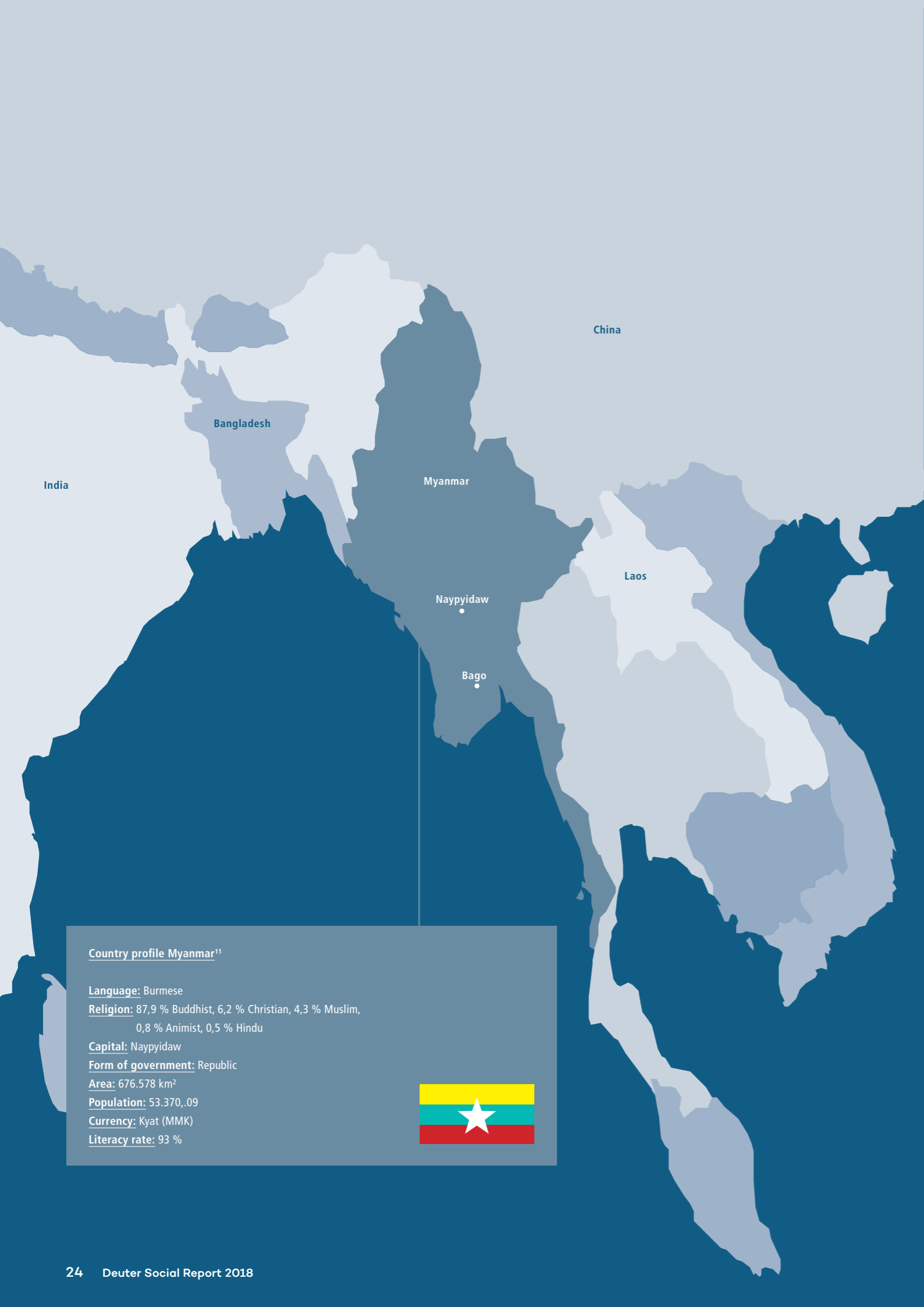


Management Training



Worker Training

¹⁰ <https://wageindicator.org/salary/living-wage/china-living-wage-series-september-2019-country-overview>



Country profile Myanmar¹¹

Language: Burmese
Religion: 87,9 % Buddhist, 6,2 % Christian, 4,3 % Muslim, 0,8 % Animist, 0,5 % Hindu
Capital: Naypyidaw
Form of government: Republic
Area: 676.578 km²
Population: 53.370.09
Currency: Kyat (MMK)
Literacy rate: 93 %



4.3. MYANMAR

Myanmar is a country in Southeast Asia. It shares borders with Thailand, Laos, China, India, Bangladesh and the Gulf of Bengal. It is about the size of Texas, covering an area of 676,578 km². The majority of the population lives near the coast and along the Irrawaddy River. The Myanmar government recognises 135 indigenous groups. The Burmese represent the largest group with 68%. The official language is Burmese. The GDP of Myanmar was 67.3 billion USD in 2017. update? The most important export goods are natural gas as well as agricultural products (esp. beans, legumes, rice, timber, gemstones, clothing, and fishery products).

4.3.1. BELLMART FACTORIES – MYANMAR

FWF-Nr.	Factory Name	Process	City	Country	Last Audit	Last WEP Training	Complaint	Visited 18/19
8561	Bellmart (Myanmar) Co. Ltd	CMT	Bago	Myanmar	09.05.2016	19.12.2016	n/a	yes

A total of 506 workers (428 women and 78 men) are currently employed at our supplier Bellmart’s factory in Myanmar (as at August 2019). Deuter obtains a large proportion of its sleeping bags from this location near the city of Bago, about an hour’s drive from the former capital Yangon (formerly Rangoon). Deuter is currently taking up a substantial part of the factory’s capacity and therefore has considerable influence. Deuter supported Bellmart in their decision to set up a new factory in Myanmar, despite the associated risks with a production site there. Both partners agreed to carefully monitor working conditions, to carry out regular risk assessments and to implement the more stringent FWF monitoring requirements for Myanmar.

Bellmart Myanmar has a sister factory called ‘Greatmen’ on the same premises that supplies two other FWF members. The ‘Greatmen’ factory produces apparel and is therefore not one of Deuter’s suppliers. However, since both companies are under the same management, all the FWF members work closely together to provide training, schedule audits or follow up on corrective action plans.

4.3.2. MONITORING AND REMEDIATION 2018/19

In May 2016 the factory was audited for the first time and towards the end of 2016 a WEP (Worker Education Program) run by the FWF was piloted there.

Despite the WEP training being held in the factory, there is still a significant lack of understanding and dialogue between the management and the workers’ council at the factory. This can largely be put down to cultural differences between the management and staff but also due to language barriers (Management is partly Taiwanese and Chinese, Most workers are Burmese). In 2017, following on from the WEP training, the workers elected a trade union representative. Deuter enrolled the FWF to help set up a workable communication system by moderating

the communication process and setting up regular meetings between the union and the factory management. Local FWF representatives were involved in the process, translating, explaining and facilitated mutual understanding. Three of these meetings were held over 2018 and showed good results. Initial improvements were implemented, such as the installation of first aid rooms, the introduction of a collective wage bargaining procedure, no work on Sundays and establishing an internal grievance procedure.

At a factory visit during the reporting period, in addition to the usual follow-up of CAP activities, a meeting was held between the Deuter CSR team and trade union members. The FWF also helped with this.

The wage situation continues to be closely monitored. During the 2017/18 financial year the legal minimum wage increased by 33%, which is why no further wage increases were implemented during the 18/19 financial year. The union is also in discussions about increasing performance bonuses and attendance bonuses.

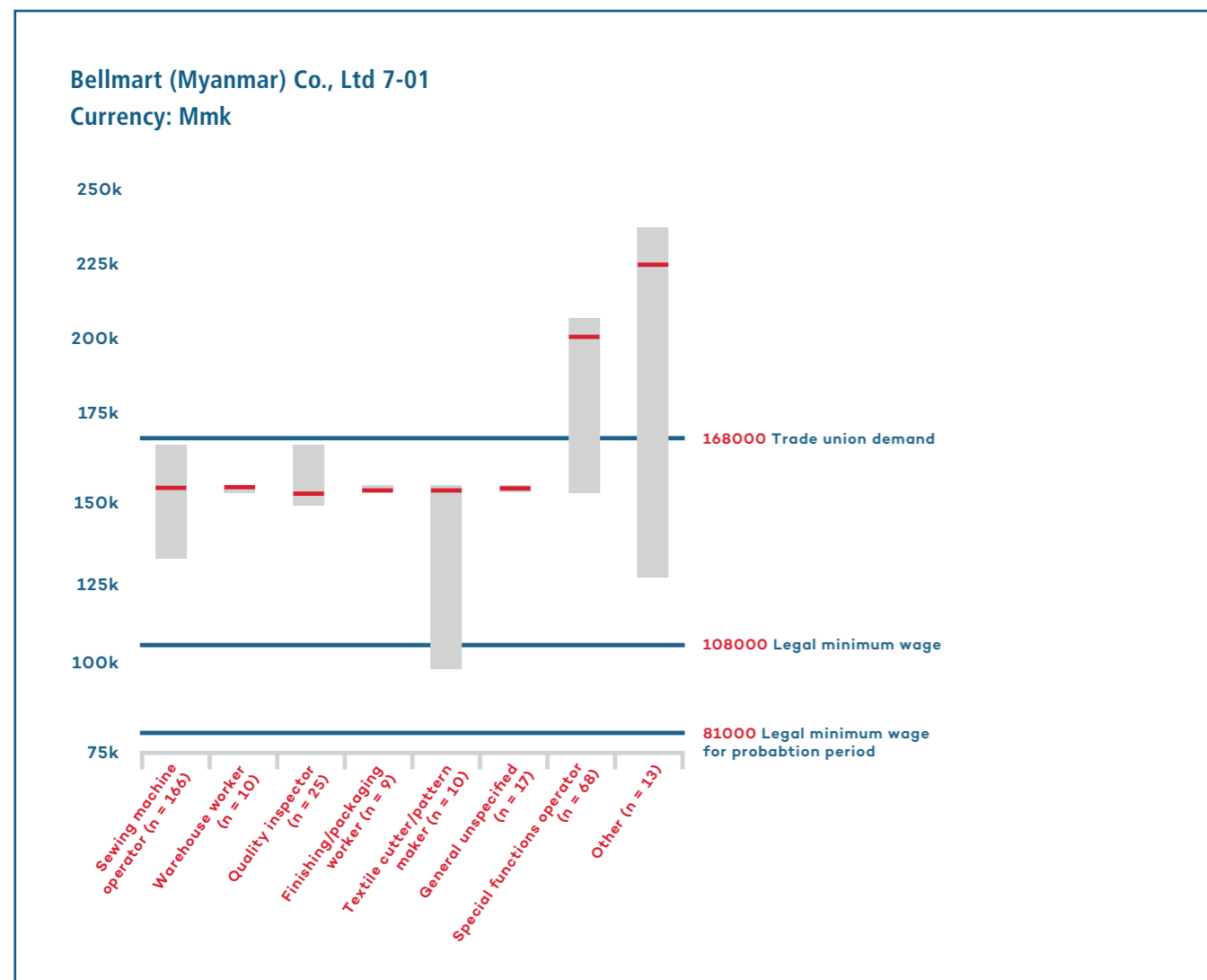
FWF has developed an add-on module for its 2016 WEP training scheme. Known as the “WEP Communications Training”, it focuses on improving and employing goal-oriented and solutions-based communication. The module will deal with a range of country-specific issues and be delivered over several training sessions throughout the year.

¹¹ <https://www.cia.gov/library/publications/resources/the-world-factbook/geos/bm.html>



Meeting between the Deuter CSR team and trade union members

4.3.4. WAGE LADDER:



WHAT WEP TRAINING IS ABOUT

FWF Workplace Education Programme (WEP) aims to move companies beyond auditing and corrective action, and towards workplaces where issues are raised and resolved through open communication.

The WEP aims to provide factory managers and workers with the tools they need to start an open dialogue about issues and opportunities in the workplace and about how to improve working conditions in the factory. Increased awareness about labour standards, together with functioning grievance systems, can contribute to improve working conditions.

Fair Wear Foundation provides both general and country-specific modules.

4.3.3. FWF COMPLAINTS PROCEDURE

During the reporting period, one complaint was filed via the FWF system.¹²



The complainant, a representative of the factory union, reported a case of discrimination to the FWF Complaints Hotline in September 2018.

Subject and resolution of the complaint:

A supervisor, accused by the union of using inappropriate language towards employees, was given a penalty fine by the local court. Once she had apologised, she was able to continue her employment.

At about the same time, a conflict between two employees which involved physical violence took place in the cutting department. Because the incident was in serious breach of clause 3 of their employment contracts, the management decided to terminate their employment. The union subsequently demanded that the employees be reinstated.

As this request was not granted, the union decided to report the two cases to the FWF Complaints Hotline citing discrimination according to the CoLP.

The complainant argued that the rules were not applied by management in the same way to all employees in the company hierarchy. He asked for support in achieving justice and eliminating discrimination in the workplace. It should be noted in this context that the union was not looking for the supervisor to be further disciplined, but rather that the two employees who had fought in the cutting department be given a second chance and reinstated.

The investigation, which also involved the Deuter CSR team, found that the decisions the factory management reached were based on the severity of the incidents rather than discriminatory bias related to the employees' positions within the factory. Case one was also examined by the local arbitration body and the Human Resources Department advised on current regulations. The supervisor paid a fine and apologised to the employees concerned, and they accepted the apology.

The second case concerned physical violence with the use of weapons that led to severe bodily harm. The FWF ruled that the management's decision was justified in light of the need to protect other employees and prevent any safety risks at the site. And so, the case was closed.

4.3.4. WAGE LADDER MYANMAR

The wage level for Myanmar (according to FWF) includes figures collected during the last audit at Bellmart, Myanmar in 2016. They do not take into consideration the most recent increases in legal minimum wage of 33% in 2018. These figures will be updated at the next audit during the 2019/20 financial year.

4.4. EXTERNAL PRODUCTION

Deuter does not own branches or stores in which third-party products are sold. However, a factory outlet is operated at the company headquarters.

In addition to its own products and samples, it also sells samples and surplus production from Ortovox, which belongs to the same group. Ortovox has been a member of the Fair Wear Foundation since 2015, fulfils the FWF requirements and was awarded 'Leader Status' in their last Brand Performance Check.

For trade fairs and in-house use, Deuter has workwear manufactured by Maier Sport GmbH. Just like Ortovox, Maier Sport also belongs to the Schwan Stabilo Group and has been a member of the Fair Wear Foundation since 2011. During the reporting period, the company achieved a rating of "good" in its yearly Brand Performance check.

¹² <https://www.fairwear.org/programmes/complaints/deuter-sport-gmbh-complaint-523>

5. COMPLAINTS HANDLING

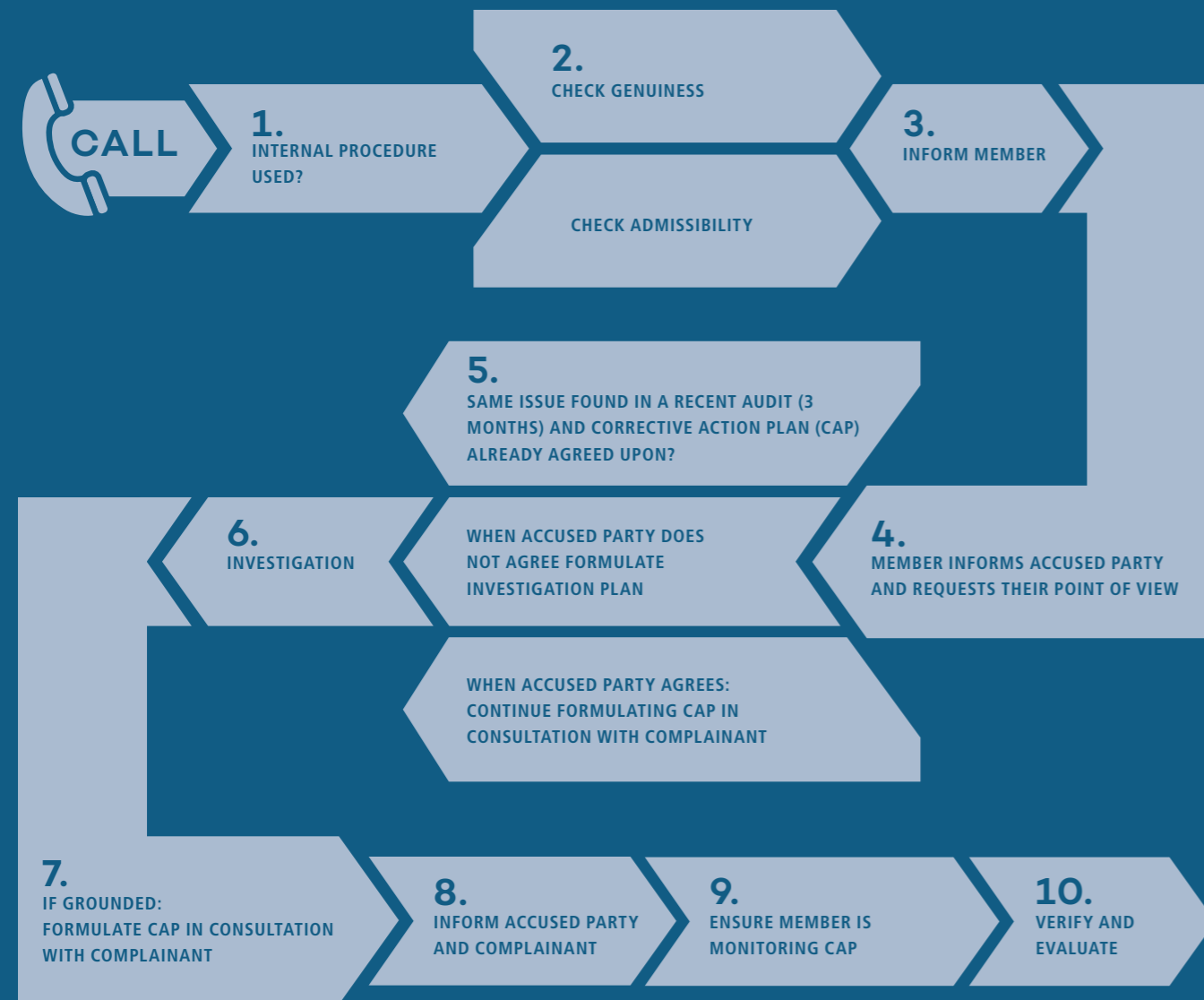
The handling of complaints and how they are followed up is described in the individual country chapters.

details for the local complaints handler and is naturally written in the language of that country.

In general, all production facilities as well as their subcontractors are required to post the worker information sheet (CoLP) in a public and easily accessible area of the factory. This info sheet contains the contact

The correct display of the worker's info sheet is verified during regular visits by Deuter staff.

The following diagram shows the FWF complaints procedure:



6. TRAINING AND CAPACITY BUILDING

6.1. ACTIVITIES TO INFORM STAFF MEMBERS

- Annual training of international staff and distributors (FWF and other sustainability measures) by presentation and / or workshop
- Twice-yearly training of Deuter sales team (Germany)
- Annual training for new Deuter staff on FWF, as well as relevant existing staff

Deuter regularly implements FWF WEP training courses for each factory. These are about promoting dialogue between the workers and management. These courses inform both production workers and management about employee rights, FWF complaints procedures, etc. A further objective is to encourage employees to enter into negotiations independently and use employee representatives to stand up for their rights.

6.2. MEASURES TO INFORM MANUFACTURERS AND WORKERS

As explained above, meetings are regularly held with our manufacturing partners. Since our suppliers have remained the same for so many years, it is no longer necessary to conduct training about the FWF system. Instead, the focus is on monitoring and implementing Corrective Action Plans (CAP) and on the working partnership as we go forward.

Duke has also introduced a system of regular training for its workforce on Fair Wear and safety issues. The CoLP always forms part of this training.

7. STAKEHOLDER ENGAGEMENT

Deuter believes external input from different stakeholders is very valuable and helpful in implementing good practice throughout its supply chain.

icals handling for the supply chain, microfibre prevention, the development of a sustainable down standard etc.

The Deuter CSR team regularly attends stakeholder meetings arranged by FWF, the Partnership for Sustainable Textiles or bluesign®. During these meetings, stakeholders from the public sector, NGOs, trade unions and industry discuss their work or give presentations on issues faced in production countries such as wages, environmental concerns, and Best Practice approaches.

In addition to industry meetings, Deuter regularly compiles risk assessments in order to better evaluate and assess the situation in its manufacturing countries. Among others, they consult the websites and reports of relevant NGOs as well as websites such as www.mvorisicochecker.nl/ and www.wageindicator.org.

Deuter is a member of the BSI¹³ and EOG¹⁴, both of which are industry associations that deliver training and meetings on CSR-related issues. Deuter is also a member of several working groups that aim to develop solutions on CSR-related issues such as the setting up training on chem-

In addition, a media warning system has been set up to provide information on political, social and economic news in Vietnam, China and Myanmar. Annual reports on human rights in high-risk countries are also reviewed.¹⁵

¹³ <https://www.bsi-sport.de>

¹⁴ <https://europeanoutdoorgroup.com>

¹⁵ z.B. <https://www.state.gov/wp-content/uploads/2019/06/2019-Trafficking-in-Persons-Report.pdf>



Deuter CSR Team

"OUR COMMITMENT TO THE WORKING CONDITIONS OF OUR SUPPLIERS HAS ANNUALLY BEEN AWARDED 'LEADER STATUS' BY THE FAIR WEAR FOUNDATION SINCE JOINING IN 2013. DEUTER RECEIVED THE 2015 FWF BEST PRACTICE AWARD FOR RESPONSIBLE PURCHASING PRACTICES. THE DEUTER 360° CR STRATEGY COVERS ALL AREAS AND IS CONTINUALLY BEING IMPROVED."

Anna Steffen and Marco Hühn, Quality & CSR



MEMBERSHIP START DATE:
August 2011

FOR MORE INFORMATION PLEASE
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