

Communication on Progress UN Global Compact

AIAYU ApS Denmark

December 2015

Statement of Continued Support

AIAYU ApS, incorporated in Denmark, was established in 2006 with the specific purpose of creating a luxury fashion brand where high quality and design would go hand in hand with a high ethical standard. The mission of AIAYU is to create rich and durable products with an extraordinary story and with greatest respect for people and planet.

Most of our products are based on the little known llama fibres from Bolivia and we have chosen to have our yarns and finished garments produced at the source of the fibres, at 4000 meters altitude in a factory with which we have entered into a long term partnership, so that the poor people of Bolivia get as large a share of the value adding activities as possible. Together with our manufacturer in Bolivia we have a strong focus on reducing the environmental impact from our production and on ensuring a high social standard in the manufacturing process.

In addition to the knitwear collections, we also have an organic cotton based bed wear line manufactured by a SA8000 and GOTS certified manufacturing company in India. The company takes great social responsibility in the local society and have established a stitching institute that gives training to the women living in the rural areas close to the factory. The institute educates the women in garments manufacturing and afterwards the women are offered work at the factory. Furthermore they encourage all their clients to support and donate funds to a local school for mentally challenged children - TEARS. The TEARS project engages handicapped children in the local area around our supplier's plant. The project allows the children to learn a handcraft, while improving their living standard. We are proud to be part of this donation group and are very pleased to be able to buy products from the TEARS projects. We truly believe, that engaging in these communities and supporting the trade will create sustainable growth and profit in these areas.

It is our ambition that our manufacturing choices will help support the people of our Bolivia, India and Nepal out of poverty.

Overall our vision is:

1. to explore, celebrate and preserve the unique craftsmanship and extraordinary materials found around the world and to manufacture our products, where the material and expertise has its origin, in order to obtain the best craftsmanship and finish
2. to take responsibility throughout the entire value chain and strive to ensure full transparency of all key processes,
3. to create rich and durable long-lasting products with an extraordinary story manufactured with greatest respect for the people crafting our products and for the environment
4. to help our suppliers understand the importance of the 10 principles of the Global Compact and help them change their entire company to fulfil the principles so that the people working in our supply chain receives the respect and conditions they deserve as human beings in this world,

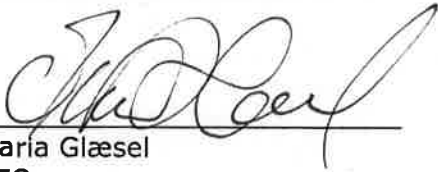
5. to raise awareness of the fashion industry's social and environmental issues to the western world's luxury fashion consumers and dealers and make them feel a common destiny with the people that produce the garments they wear.

It was natural for us to commit to the 10 principles of the UN Global Compact and to promote and advance them in all our activities.

We hereby state our continued commitment to and support for the UN Global Compact and its 10 principles. We will continue to strive towards meeting the principles ourselves and making our suppliers meet the principles too.

For AIAYU ApS

Copenhagen, November 2015

A handwritten signature in black ink, appearing to read 'Maria Glæsel', written over a horizontal line.

Maria Glæsel
CEO

Human Rights Principles

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses

Labour Principles

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation

Assessment, Policy and Goals

Focus on the principles 1 to 6 is mostly relevant for our suppliers. This not to say that the principles 1 to 6 are not important to our internal operations, on the contrary it is very basic fundamentals for our operations. However, we are based in Denmark where rules and regulations effectively make it impossible not to follow the principles, except for principle 6. This principle we work with by having a no discrimination policy.

Instead of demanding that all our suppliers shall meet the principles before buying from them, it is our strategy to use our buying power to get suppliers to change their way of operating and their mindset so that they over a reasonable time change from not living up to the principles to living up to the principles. This way we help make improvements for people whose working conditions are not acceptable from the outset.

Suppliers must either be working with a clear plan on getting credible CSR certification and have a very convincing operation – like our supplier in Bolivia are doing, or already have a credible CSR certification as our supplier in India has.

Implementation

We have worked with our main supplier in Bolivia since the start of the company and – contrary to what is usual in the fashion industry – we don't plan to shift supplier whenever a new supplier offers cheaper prices. We secured funding from the Danish development organisation, DANIDA, between 2007 and 2011 to implement a broad range of improvements within principle 1 to 6, including occupational health and safety, and to work towards getting the supplier SA8000 certified, one of the leading independent CSR certification systems, which encompass principles 1 to 6.

Improvements and upgrades in preparations for the SA8000 certification have been implemented during 2012 and 2013. In 2013 it was decided to change from SA8000 to WRAP certification, as the latter was more suitable. The certification was completed and attained in Q2 2015. Currently our manufacturer holds a Gold certification but aims to achieve a Platinum certification within the next 3 years.

Our supplier in India is already SA8000 and GOTS certified.

Measurement of outcomes

We monitor the progress of improvements necessary for the WRAP certification. When the WRAP certification is in place we will ensure that our main supplier maintains the certification by passing the annual independent WRAP inspections and we will ensure that our SA8000 supplier in India will maintain the certification. We also conduct annual visits to both of our suppliers to follow the progress on site.

Environmental Principles

Principle 7: Businesses should support a precautionary approach to environmental challenges;

- Principle 8: undertake initiatives to promote greater environmental responsibility; and*
Principle 9: encourage the development and diffusion of environmentally friendly technologies

Assessment, Policy and Goals

The principles 7 to 9 are more relevant for our suppliers as our company itself has no production activities. However, the delivery of products from our suppliers does have an environmental impact in form of fuel for transportation of goods and packaging material. Our office facility and office supplies also have an environmental impact although minimal. Lastly, our products durability has an impact of how fast a consumer will replace with a new product.

For our own operations we have decided to work towards having goods shipped directly from our supplier to customers in each country instead of taking all goods from Bolivia to Denmark and thereafter to different locations around the world. However, this will only be possible when volumes to various countries increase above its current level. Furthermore, it requires more diligence in quality control and packaging than our suppliers have today. These are issues we will be working on during the next years. For the delivery of our products from India we use sea freight whenever the lead-time allows it.

To reduce the impact of packaging we use biodegradable wrapping for our products.

We strive to make long lasting products; long lasting in terms of the quality and long lasting in terms of the design. The llama fibres have a superior quality, which makes our products very long lasting compared to most other fabrics. In our design we strive to balance new fashion trends with classic in order to come up with designs that are not outdated following season.

As for our main supplier in Bolivia we have engaged them in a plan to improve the environmental impact of their production and our goal is to make it as environmental friendly as possible. The main environmental impact is waste water and energy for heat and power in the production.

The supplier is on other environmental issues already well advanced:

- It uses biodegradable detergent and dyes with as little chemicals as possible. It further has the advantage that llama fibres come in a broad range of natural colours. We strive to always use as many natural colours in our collection as possible as this reduces the use of dyes.
- The factory's main energy source for heating is natural gas, which compared to other fossil fuel has a low carbon emission factor. Similar, the Bolivian national power grid emission factor is lower than most countries due to a high degree of natural gas and hydro power. This said, Bolivia's highland, where the factory is located, has high potential for solar heating and power due to high altitude and many hours of sunshine per year.

As for our supplier in India, to reduce the harm on the environment and to act responsible to the world's climate challenge, all leftovers from production of our bed linen is used to manufacture a "zero waste" bed cover quilt and bags for wrapping. With the bed cover quilt and the bags it is our goal - in addition to reducing our environmental impact, to raise awareness of the many possibilities that lies in zero waste design and production.

Implementation

With support from the Danish Development Organisation, DANIDA, our main supplier in Bolivia has implemented a waste water treatment plant that cleans the waste water before letting it out in the public sewer system. The plant further recycles up to 70% of the water which helps save the water consumption of the factory. Prior to the implementation of waste water plant the factory was not recycling any water and untreated water was let directly into the public sewer system. New water saving toilets has also been installed at the factory.

The water treatment plant was the first of its kind in Bolivia and our supplier has had several companies in Bolivia visiting to view the plant and it is letting the supplier of the plant use it for sales demonstration purposes. The aim is to encourage other companies in Bolivia to protect the environment.

Our supplier has also installed waste containers for solid waste and contracted disposal at the city's official managed and sanitised landfill facility. Prior to this, solid waste was left on the ground and the end destination for disposal was unknown.

Our supplier has during the last years implemented various energy efficiency improvements, which will reduce the carbon footprint further, such as:

- Supply of correct chemicals to add to water before going into boilers so that combustion is minimized and gas consumption is adequate.
- Heat transfer unit have been bought and implemented so the heating system is more efficient in dryer.
- Replacement of old electrical systems and improvement of other.

Further energy efficiency measures are being planned.

Measurement of outcomes

We have engaged ourselves in finding out what environmental impact our main supplier has from the manufacturing of our products.

Anti-Corruption Principles

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery

Assessment, Policy and Goals

We have a clear policy of not being involved in corruption of any kind in our home country as well as abroad.

Implementation

We have informed our main supplier of our policy and that we expect them to follow and implement the same policy in their organisation.

Measurement of outcomes

We realise that it is very difficult if not impossible to control whether suppliers follows this policy of no corruption and can only repeat it continuously, observe during visits whether their behaviour indicates a lack of respect of normal ethical behaviour, and if they are ever convicted of corruption terminate the relationship.