



# ODLO international annual csr report 2009



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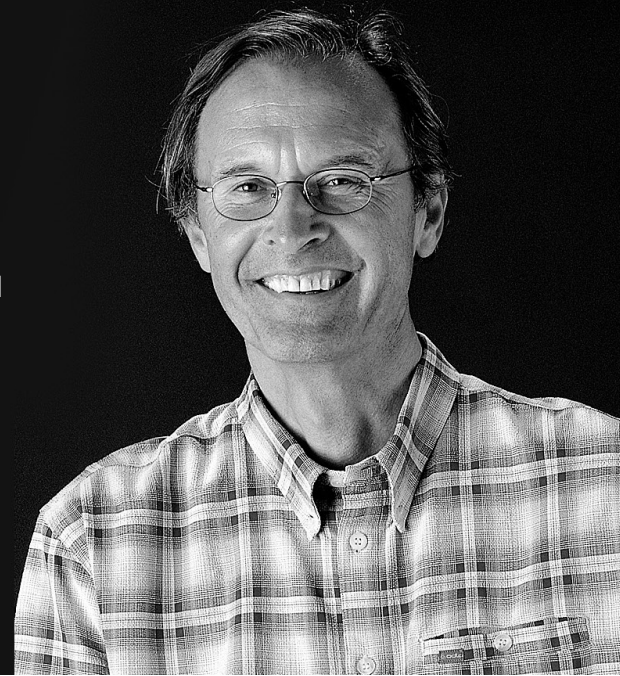
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«At ODLO we act with social and ecological responsibility».



## introduction by odd r. lofterød, chairman of the board

Dear ODLO friend

As a Swiss company with a long family tradition and high quality demands we are committed to sustainable corporate leadership. Anchored in our vision is that we want to act with full awareness of our social and ecological responsibility. My father, who established ODLO in 1946, was already very conscious of this important responsibility.

We are pleased to present our CSR annual report to you. If you have any questions or ideas, please don't hesitate to contact us.

Kind regards

Odd R. Lofterød  
Chairman of the Board



## management summary

Picture

**ODLO offers an all-year-round range of functional sportswear.**

ODLO is a Swiss sportswear company with Norwegian roots, founded in 1946. The company is European market leader in the segment of functional sports underwear and offers an all-year-round range of sportswear.

Sustainability is anchored in ODLO's corporate vision. For ODLO, this means that, among other things, a strict sourcing and production strategy is pursued. Accordingly, ODLO produced in 2009 more than half of its products in its own factories and manufactures in total about 70% in Europe and the Middle East.

Corporate Social Responsibility (CSR) is an ongoing process at ODLO. In October 2008, the company therefore joined the Fair Wear Foundation and, since then, has had three independent audits carried out at the premises of its producers in Romania, Thailand

and China as well as a Management Audit at its headquarters. More than 60% of the overall value of goods has therefore already been audited or is being produced in «low risk countries». The results were positive on the whole, i.e. the factories that were audited have already reached a good working standard, although they still have potential for improvement.

**CSR is an ongoing process at ODLO.**

In the nineties, ODLO had already signed a code of conduct with its producers, under which they are committed to socially responsible production. In 2009 ODLO revised that code of conduct to adapt to the requirements of the Fair Wear Foundation and had it re-signed by each of the producers. This most restrictive code on the market is based on the conventions of the International Labour Organisation (ILO) and the Universal Declaration of Human Rights.

During the past 2 years, ODLO began to develop its own CSR Management System and thus to standardise the processes. The company appointed an ODLO International CSR Team, developed a monitoring and a reporting system and held internal workshops on social responsibility.

The ODLO management set itself an ambitious CSR strategy for 2010 – 2012. According to this strategy the company will have all producers audited in the forthcoming years. In addition, ODLO intends to analyse, identify and implement various internal and external ecological measures.



## the ODLO brand

Picture 1

**ODLO is European market leader in the segment of functional sports underwear. It is mainly produced in ODLO's own factories in Portugal and Romania.**

Picture 2

**ODLO products are of high quality and have a long life.**

### Brand Philosophy

ODLO is the inventor of functional sports underwear. As the market and technological leader, ODLO has committed itself to producing the best functional sportswear for people who love exercise – in every weather and at every level of intensity. ODLO ensures well-being from the skin outwards and stands for uncompromisingly high demands of function, wearer-comfort and quality.

In the European market, ODLO is the leader in the segment of functional Sports Underwear. In addition, ODLO offers successful collections in the categories of Outdoor, Running, X-Country, Tec Shirts and Bike. ODLO has its own subsidiaries in Switzerland, Germany, France, Belgium/Holland and Austria. The ODLO brand is distributed worldwide in more than 20 countries. You can find further information under [www.odlo.com](http://www.odlo.com).

ODLO offers just one single brand – namely ODLO. The result is that all the activities can be bundled and applied to develop the brand. The assurance of a sustainable supply chain is also easier with this One Brand Strategy.

### Quality, material, prices, etc.

For ODLO, quality and functionality always have top priority. Our sportswear is convincing thanks to optimal climate regulation, comfort and high-quality materials and technologies. ODLO invests a great deal of time and money in research and development in order to satisfy the high demands of male and female sports enthusiasts and athletes.

By the same token, we want to offer the functional products to a broad public – everyone should have the opportunity to derive even more enjoyment from sport and leisure with the right clothing.

ODLO therefore offers a broad collection of functional sportswear in the medium to high price-range. Thanks to the long useful life of the products and the high wearer-comfort, the investment is in any case worthwhile for the customer. The fact that the majority of the products are manufactured in Europe also contributes in many cases to the buying decision of our consumers.

ODLO does not use any cotton or animal wool. Most of the products are made of pure polyester, as this material shows best performance under sporting conditions.





«An intact nature and social justice are very important to me as an orienteering competitor and mother. As a member of the Fair Wear Foundation, ODLO commits itself for sustainable products».

## the ODLO company

Picture

Simone Niggli-Luder,  
mother and multiple  
World Champion  
in orienteering

### Passion for Sports

The ODLO brand is today a synonym for functional sports underwear. What began in 1946 with two knitting machines and a vision of high-quality sportswear is today being continued as a true success-story. As a Swiss company with Norwegian roots, ODLO focuses entirely on the layering principle and implementation of the latest fibres and processing technologies.

Behind ODLO is an organisation which, for more than 60 years, has combined a traditional passion for sports with innovative strength and know-how. The collections are continually optimised in close co-operation with athletes. The result is that numerous, well-known top athletes such as the biathlon Olympic champion Ole Einar Bjørndalen or the orienteering World Champion Simone Niggli-Luder swear by ODLO functional clothing and contribute to the brand's outstanding image.

### History

In 1946, Odd Roar Løfterød senior, an enthusiastic sportsman, founded the ODLO company in Norway. One year later, ODLO began producing ladies' underwear. Additionally, the company founder developed for his son, Odd Roar junior, a member of the youth speed-skating team, special training tights made of Helanca fibres to protect him from the cold. When Odd Roar jun. trained in the tights, many athletes showed great interest in this new development.

In 1963, Odd Roar introduced the further development of this prototype to the market: the first functional outfit for cross-country skiers and speed-skaters made of the revolutionary, synthetic Helanca fibre. The entire Norwegian national team already wore the innovative outfits in 1964 at the Winter Olympics. And by 1972, 22 national teams were wearing ODLO competition sportswear at the Olympics in Sapporo. And there was no sponsorship like there is today – everyone had to pay for the outfits themselves!

1973: ODLO TERMIC, the first fully synthetic sports underwear was launched. Here again, speed-skaters provided the inspiration – because the existing cotton underwear proved to be totally unsuitable, the only garment they wore under their racing outfits was just a pair of briefs, even at temperatures of minus 20 degrees.

In 1979, Odd Roar jun., son of the founder, and someone who had grown up in an atmosphere of creative, entrepreneurial spirit, took over the ODLO company.

In 1987, Løfterød established ODLO International AG in Zug, Switzerland, as the new headquarters of the ODLO brand. In the same year, ODLO launched the revolutionary ATHLETIC CLOTHING SYSTEM, based on the three-layer principle. The first layer, the underwear, ensures optimal moisture regulation, the



## the ODLO company

Picture

ODLO invests in new technologies and fabrics, such as «evolution» bodywear.

second layer assists with temperature control, and the third layer protects from the wind and weather. Further collections followed in subsequent years, such as Running and Outdoor, Bike, Nordic Walking and Kids.

ODLO was ahead of the times in the 1990s when it launched a recycling programme for consumers. Customers could give their old ODLO products back to have them recycled. However, the lack of interest at that time led to the offer being withdrawn 5 years later.

Just in time for the turn of the century, ODLO achieved a fabric breakthrough: the development of the «effect by ODLO» fibre, thus bringing the first underwear containing odour-reducing silver ions on to the market. Further innovations

followed: Just One, the universal, highly functional T-shirt, a garment which provides the

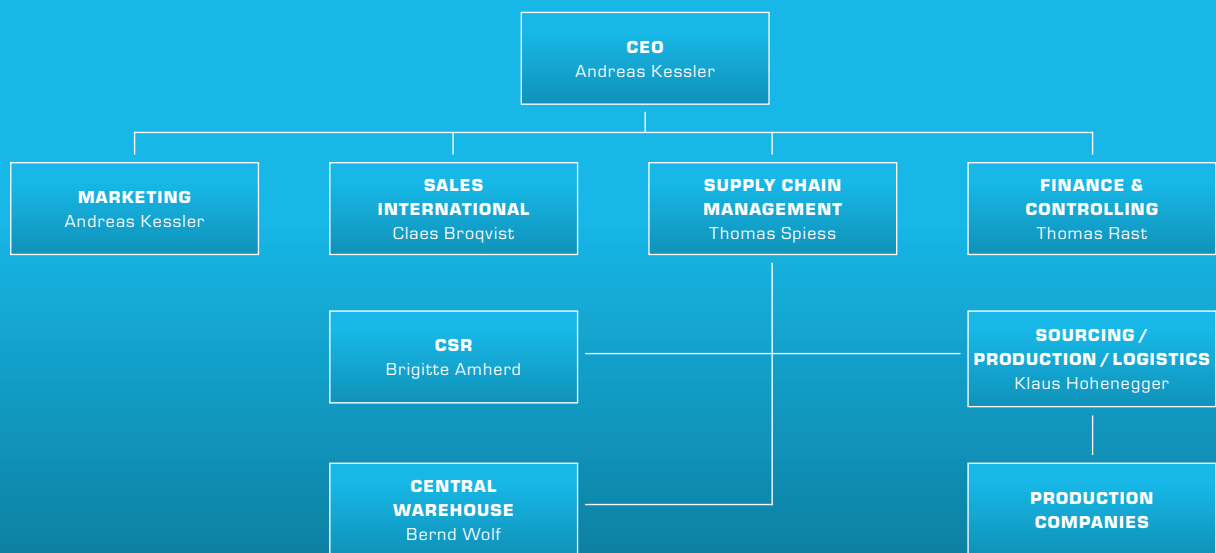
In 2008 ODLO joined the Fair Wear Foundation.

customers with an optimal body-climate in summer, as well as the new all-year-round underwear quality «cubic», an ultra-lightweight knitted construction which, with its three-dimensional, cubic structure, ensures an optimal body-climate.

The company constantly invests in the sustainability of its supply chain. ODLO Portugal as the company's own factory is constantly improved in its technology. In 2003, an efficient central warehouse was built in Brüggen, Germany. This was followed in 2004 by inauguration of ODLO Romania, a modern factory with 350 employees and 11 production lines on 5250 square metres. Following the expansion of capacity in Romania in 2006, ODLO Portugal was newly structured as a competence and innovation centre with highly qualified employees.

In 2008, ODLO joined the Fair Wear Foundation, an international non-profit organisation, founded to improve labour conditions in the garment industry. In the same year, ODLO launched the functional, figure-hugging «evolution» light sports underwear and the new sports bra range. Both innovations are in-house developments from the Swiss sportswear manufacturer.

ODLO wants to grow further and be an attractive employer. The Swiss company therefore moved into a new building in Hünenberg in August 2009 with 4500 square metres of space where the employees have not only spacious, modern offices but also a lounge and a fitness studio of their own.



## facts and figures 2009

Diagram  
Organisation chart

ODLO Sports Group AG 2009	ODLO Sports Group AG 2009
<b>Headquarters</b> ODLO Sports Group AG, Switzerland, Bösch 47, CH-6331 Hünenberg	<b>Sales 2009</b> 159.6 million CHF
<b>Brand established in</b> 1946	<b>Production 2009</b> 2 collections with a total of 6 million garment units
<b>Board of Directors</b> The Board of Directors is comprised of: Odd R. Lofterød, Chairman Andreas Kessler, CEO 4 representatives of a private equity company 2 private advisors	<b>Points of Sales 2009</b> ODLO products are offered worldwide in more than 4'500 sales points, mainly in the specialist sports trade. The Swiss company also runs its own ODLO stores.
<b>Management</b> Andreas Kessler (CEO, Marketing) Thomas Spiess (Supply Chain) Claes Broqvist (Sales) Thomas Rast (CFO)	<b>Further information</b> <a href="http://www.odlo.com">www.odlo.com</a>
<b>Employees 2009</b> Total 650, of which 100 at the Swiss operations in Hünenberg	



Responsibility – we care!  
Actions – we act!  
Transparency – we share!



## csr vision

Diagram

The three core expressions of the ODLO CSR vision are Responsibility, Actions and Transparency.

Sustainable action has been anchored in ODLO's corporate vision from the beginning: «We act with social and ecological responsibility».

The three core expressions «Responsibility», «Actions» and «Transparency» reflect what is at the forefront for ODLO.

### **We care:**

As a Swiss quality company with a family tradition, sustainability is very important for us. We want to perceive our responsibility so that we can all continue to enjoy sporting activities in the open air well into the future.

### **We act:**

We want to act in the form of small, specific steps, fully aware that we only have limited resources and have to be economically successful. We therefore have to come up with a selection of sensible measures which we can also implement.

### **We share:**

We stand to what we do. We want to inform about our measures and progress and also communicate any setbacks if and when they arise.



## csr strategy for 2010 – 2012

Picture

**Our future**  
generations should be  
able to enjoy sports  
well into the long-term  
future.

The ODLO CSR Strategy for the next 3 years defines ambitious goals, responsibilities and milestones. The CSR Strategy is an internal and confidential paper, approved by the Executive Board. The following extract provides an overview of its content:

### Social responsibility

Be a fair and attractive partner for our producers and ensure that the Code of Conduct is applied correctly.

Be a fair and attractive employer for our own employees (Headquarters, national companies, own production sites).

Realise measures demanded by the Fair Wear Foundation as an outcome of the Management System Audit (e.g. Implement Complaint Procedure).

Follow up on Corrective Action Plans (CAPs) as the outcome of social audits.

Follow up on Employee Survey, conducted bi-annually since 2007.

### Ecological responsibility

Ensure ecological sustainability.

Ensure stakeholders' safety and health.

Analysis of current ecological situation. Identification and implementation of internal and external measures (e.g. relaunch of a meaningful polyester recycling project).

Membership in international and national initiatives (European Outdoor Group EOG, World Federation of the Sporting Goods Industry WFSGI).

### Transparency, Communication, Organisation

Improve and standardise CSR processes and tools.

Improve transparency internally and externally (e.g. with animated Supply Chain Documentation).

Develop management and employees continuously (e.g. with workshops).

Implement CSR in the Management by Objectives (MBO) process.



## the ODLO code of conduct

Picture

All the producers of ODLO have signed a strict Code of Conduct.

In the nineties, ODLO had already signed a code of conduct with its producers, under which they are committed to socially responsible production. At the beginning of 2009, we revised that code of conduct to adapt to the requirements of the Fair Wear Foundation and had it re-signed by each of the producers.

This most restrictive code on the market is based on the conventions of the International Labour Organisation (ILO) and the Universal Declaration of Human Rights. Its major points are:

### **Employment is freely chosen**

There shall be no use of forced, including bonded or prison, labour. (ILO Conventions 29 and 105)

### **There is no discrimination in employment**

Recruitment, wage policy, admittance to training programs, employee promotion policy, policies of employment termination, retirement, and any other aspect of the employment relationship shall be based on the principle of equal opportunities, regardless of race, colour, sex, religion, political affiliation, union membership, nationality, social origin, deficiencies, or handicaps. (ILO Conventions 100 and 111)

### **No exploitation of child labour**

There shall be no use of child labour. The age for admission to employment shall not be less than the age of completion of compulsory schooling and, in any case, not less than 15 years. (ILO Convention 138) There shall be no forms of slavery or practices similar to slavery, such as the sale and trafficking of children, debt bondage and serfdom and forced or compulsory labour. [...] Children [in the age of 15 – 18] shall not perform work which, by its nature or the circumstances in which it is carried out, is likely to harm their health, safety or morals. (ILO Convention 182)

### **Freedom of association and the right to collective bargaining**

The right of all workers to form and join trade unions and bargain collectively shall be recognised. (ILO Conventions 87 and 98) The company shall, in those situations in which the right to freedom of association and collective bargaining are restricted under law, facilitate parallel means of independent and free association and bargaining for all workers. Workers' representatives shall not be the subject of discrimination and shall have access to all workplaces necessary to carry out their representation functions. (ILO Convention 135 and Recommendation 143)



# the ODLO code of conduct

## **Payment of a living wage**

Wages and benefits paid for a standard working week shall meet at least legal or industry minimum standards and always be sufficient to meet basic needs of workers and their families and to provide some discretionary income. (ILO Conventions 26 and 131). Deductions from wages for disciplinary measures shall not be permitted nor shall any deductions from wages not provided for by national law be permitted. Deductions shall never constitute an amount that will lead the employee to receive less than the minimum wage. Employees shall be adequately and clearly informed about the specifications of their wages including wage rates and pay period.

## **No excessive working hours**

Hours of work shall comply with applicable laws and industry standards. In any event, workers shall not on a regular basis be required to work in excess of 48 hours per week and shall be provided with at least one day off for every seven-day period. Overtime shall be voluntary, shall not exceed 12 hours per week, shall not be demanded on a regular basis and shall always be compensated at a premium rate. (ILO Convention 1)

## **Safe and healthy working conditions**

A safe and hygienic working environment shall be provided, and best occupational health and safety practice shall be promoted, bearing in mind the prevailing knowledge of the industry and of any specific hazards. Appropriate attention shall be paid to occupational hazards specific to this branch of the industry and assure that a safe and hygienic work environment is provided for. Effective regulations shall be implemented to prevent accidents and minimise health risks as much as possible (following ILO Convention 155). Physical abuse, threats of physical abuse, unusual punishments or discipline, sexual and other harassment, and intimidation by the employer are strictly prohibited.

## **Legally-binding employment relationship**

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

skills or provide regular employment. Younger workers shall be given the opportunity to participate in education and training programmes.

## **ODLO has committed itself to correct implementation of that code of conduct:**

1. ODLO undertakes to trade only in garments that have been produced under dignified working conditions.
2. To that end ODLO agrees to implement the Fair Wear labour standards in its factories and agrees to put sufficient and effective efforts into ensuring that this code is followed by its contractors, subcontractors, producers, and licensees.
3. ODLO undertakes to assure that its contractors, subcontractors, producers, and licensees abide by the standards established in the Fair Wear Foundation Code of Labour Practices and shall work toward the verification of these standards.
4. ODLO shall stipulate that contractors, subcontractors, producers, or licensees who demonstrably fail to comply with one or more of the standards laid down in the Fair Wear Foundation Code of Labour Practices take appropriate measures to ensure that the situation is improved. If necessary, the offending party shall be sanctioned by cancellation of its contract, thus prohibiting it from producing or organising the production of garments for ODLO.
5. ODLO declares that it agrees to independent verification of its compliance with the Fair Wear Foundation Code of Labour Practices and in that regard undertakes to follow the instructions of the Fair Wear Foundation.
6. Disputes regarding the interpretation of this Code of Labour Practices will be handled according to procedures established by the Fair Wear Foundation.



## csr management system

Picture

ODLO typical sports like running or cross country require endurance and passion for nature.

### CSR overall responsibility

ODLO International's Executive Board bears overall responsibility for CSR. It defines the CSR strategy. Significant strategic decisions are resolved by the Executive Board with inclusion of the Chairman of the Board of Directors.

Within the Executive Board, the head of Supply Chain Management is the CSR delegate and is entrusted with implementation of the CSR strategy. He is supported by the CSR Manager.

### ODLO CSR Team

ODLO assigns a CSR team in order to ensure implementation of the vision and the strategy. In 2009, the team was comprised as follows:

#### CSR Delegate:

Thomas Spiess

#### CSR Manager:

Brigitte Amherd

#### Head of Sourcing & Production:

Klaus Hohenegger

#### Administrator, Sourcing & Production:

Samuel Frei

In addition, every member of the ODLO staff is obliged to act with social and ecological responsibility in his or her field of work.

All the managers at ODLO are responsible for implementation of the CSR strategy in their own fields of activity, giving the theme the necessary weighting and providing incentives for the continual further development of CSR at ODLO.

### Management instruments

The following management instruments were applied in 2009 for CSR at ODLO:

#### ODLO Internal MGMT Instruments

- CSR Vision and Strategy
- CSR Budget
- Weekly meeting CSR Team
- CSR Workplan
- CSR Contributions to ODLO Inside Newsletter
- CSR Presentations at the ODLO International Marketing & Sales Meeting

#### ODLO External MGMT Instruments

- Code of Conduct
- Questionnaire for producers
- Social Audits, performed by the Fair Wear Foundation
- CSR Report
- Corrective Action Plans CAPs

# csr management system

## Fair Wear Foundation

ODLO is a member of the Fair Wear Foundation, which works to promote good labour conditions in sewn textile production worldwide. European clothing and textile companies can take responsibility for their supply chains by setting up a monitoring system and implementing the FWF Code of Labour Practices. FWF verifies that they work efficiently and achieve adequate results. Governed by trade unions, NGOs and business associations, FWF's independence is guaranteed. Transparency and accountability are key principles, because people have a right to know under what circumstances their clothes are made.

ODLO performs its social audits through an external, independent company.

European fashion, industrial clothing and promotional garment companies can join the FWF and become

an FWF affiliate. Members of the FWF work towards improving the labour conditions in factories that produce sewn textiles all over the world. The basis of the collaboration between the FWF and a member is the Code of Labour Practices (see also the web page Code of Labour Practices). Eight labour standards form the core of the Code of Labour Practices. Members of the FWF must comply with this Code of Labour Practices.

The FWF verifies whether companies comply with the Code of Labour Practices through factory audits and a complaints procedure, through management system audits at the affiliates and through extensive stakeholder consultation in production countries. The FWF shares its knowledge and (local) contacts with the member companies, providing them with access to information on local legislation, labour standards and culture.

Members are required to set up a coherent monitoring system, including factory audits, factory training and factory visits. The FWF has a complaints procedure that enables factory workers to anonymously bring to light any abuses related to labour conditions.





## goals & achievements 2009

Picture

As much as every drop of water is important for a plant, every action counts to increase CSR.

### CSR Management System

Social and ecological responsibility has been anchored in the fundamental values and thinking of ODLO since the very earliest days.

In 2008, ODLO began to develop its own CSR Management System and thus to standardise the processes.

### The main steps in 2008 and 2009 were as follows:

- Joining the Fair Wear Foundation and preparing a work plan in October 2008
- Definition of an ODLO CSR Strategy for 2010 – 2012
- Appointment of an ODLO International CSR Team
- Development of a monitoring system

### Social Audits

ODLO cultivates long-term partnerships with its producers. In June 2009, apart from our own 2 factories in Portugal and Romania, a further 16 producers were active for ODLO. The Fair Wear Foundation carried out independent social audits at three of them.

- Management Audit by the Fair Wear Foundation at ODLO headquarters, June 2009
- Key Producer in Thailand (7.03% of volume, 7.87% of value of products), April 2009
- ODLO Romania (41.74% of volume, 31.49% of value of products), September 2009
- Key Producer in China (2.95% of volume, 5.72% of value of products), November 2009

More than 60% of the overall value of goods has therefore been audited or is being produced in «low risk countries», such as Portugal and Germany.

The results were positive on the whole, i.e. the factories that were audited have already reached a good working standard, although they still have potential for improvement. All the audits gave rise to so-called Corrective Action Plans (CAPs). The findings detailed in them are now being addressed by the audited producers under the supervision of ODLO. It is expected that the producers will have achieved further improvements by the time they are independently audited again by the FWF (in approximately 3 years).

### Training & Education

The following measures have been undertaken:

- CSR Workshop at the international Marketing and Sales Meeting in November 2008
- CSR information event for all ODLO International personnel in February 2009
- Information on CSR to all ODLO personnel in all countries by means of the internal newsletter «Inside» on several occasions
- Several CSR Info e-mails from the CEO and/or the CSR Team



## goals & achievements 2009

Picture

ODLO offers various sport events to its employees.

### Internal CSR initiatives and international activities

Internal CSR initiatives are initiated by individual members of staff, managers, teams or the HR department. These have included, among others:

- **Bike to work initiative, June 2009**

For the 3<sup>rd</sup> time, ODLO International took part in the «bike to work» initiative of the umbrella association «Velo Schweiz».

For a full month, the staff travelled to and from work by bicycle and therefore made both an ecological as well a sporting contribution. ([www.biketowork.com](http://www.biketowork.com))

- **New ODLO home, August 2009**

The staff of ODLO International moved into modern new offices in August 2009. Among other things, the new building provides an indoor fitness centre and showers, a spacious cafeteria and a lounge for the employees.

- **Donations of clothing**

In 2009 ODLO donated clothing for children in Burundi (Burundi Hilfe) and the Ukraine (Blue Knights Germany – support of a home for partially and completely deaf children as well as the regional hospital of the city of Novaja Uzsica).

- **Further activities**

Blood donation campaign, ODLO Portugal; various sports events for ODLO employees.

ODLO involved itself internationally in the following CSR initiatives of the sports industry:

- Membership of the World Federation of the Sporting Goods Industry WFSGI, sustainability working group ([www.wfsgi.org](http://www.wfsgi.org))
- Membership of the European Outdoor Group EOG, sustainability working group ([www.europeanoutdoorgroup.com](http://www.europeanoutdoorgroup.com))

### Transparency and external communication

In 2009, ODLO launched a new, informative website. A fundamental element of it is information about the company. Now there is also an ODLO CSR site which is to be further expanded in 2010. For ecological reasons, ODLO does not send out any CSR flyers but enables readers to gather paperless information on the website.

Joining the Fair Wear Foundation was published by means of a press release to the specialist media of the textile and sports industries as well as the daily newspapers.

Interested people can also subscribe to the ODLO Internet Newsletter. That also included a report on ODLO joining the FWF.

This first Social Report is a further, important milestone in the creation of more transparency. Every consumer will be able to read the ODLO Social Report on the website as from March 15 2010.





## sourcing strategy

Picture

Seamstresses in the ODLO factory in Romania, built in 2004. ODLO produces the majority of all its products in Europe.

Table

ODLO produces 2 collections per year. In 2009, a total of 6 million garment units was produced and a turnover of CHF 159.6 million achieved.

### ODLO Production

For a long time, ODLO produced all its products at its own factory in Portugal. With the growth of the company and the expansion of the divisions, ODLO required more production capacity and additional know-how. After careful research, the management decided in favour of a small number of producers with whom ODLO entered into long-term partnerships.

In 2004, ODLO also built a modern factory in Romania. That is where the largest volumes

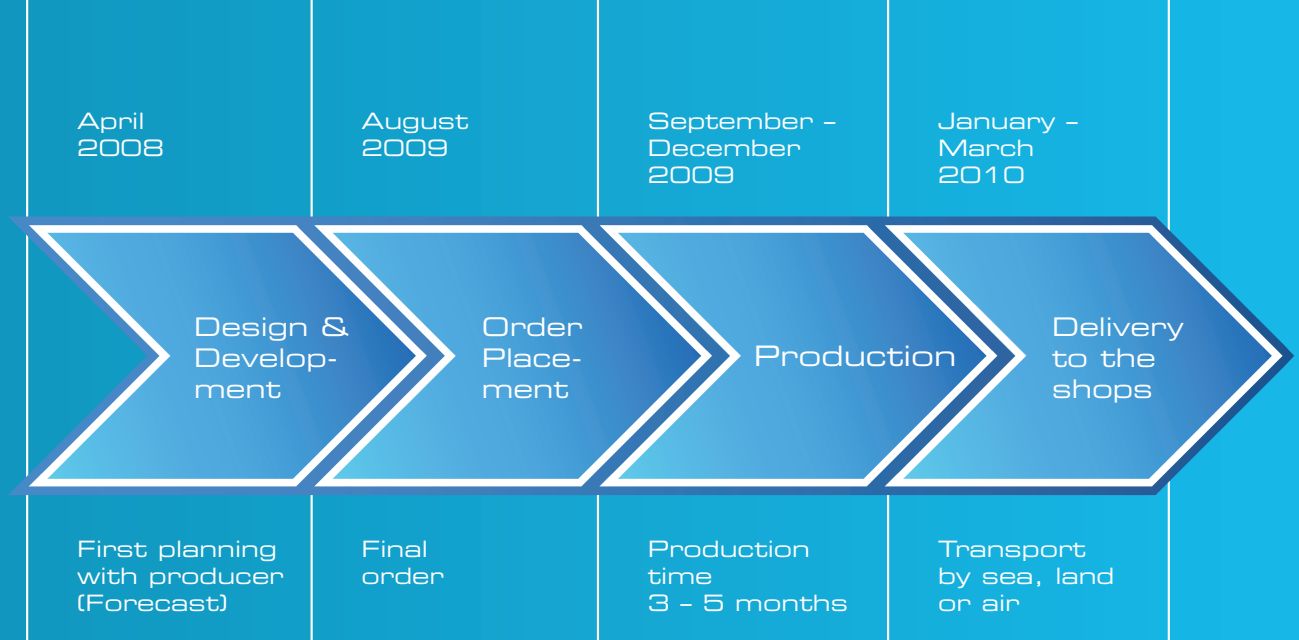
of ODLO sports underwear are manufactured, whilst ODLO Portugal is managed as a technology and competence centre. This means that in 2009, as in the past, more than half of all products are manufactured at our own factories – a unique situation in the textile industry!

In 2009, ODLO was working with a total of 18 producers. All of them have signed the strict code of conduct of the Fair Wear Foundation.

Production table by country 2009

Country of production	Number of producers	Value %	Volume %
ODLO Romania	1	31.49	41.74
ODLO Portugal	1	10.86	14.65
<b>Total own production Europe</b>	<b>2</b>	<b>42.34</b>	<b>56.39</b>
Germany	1	6.07	2.78
Portugal	1	0.37	0.39
Italy	2	1.10	3.23
Israel	2	10.28	9.19
<b>Total Europe &amp; Middle East</b>	<b>8</b>	<b>60.16</b>	<b>71.99</b>
China	5	17.38	12.21
Vietnam	1	11.69	6.41
Thailand	1	7.87	7.03
South Korea	1	1.12	1.02
India	1	0.21	0.17
Taiwan	1	1.56	1.17
<b>Total Far East</b>	<b>10</b>	<b>39.84</b>	<b>28.01</b>
<b>Total</b>	<b>18</b>	<b>100.00</b>	<b>100.00</b>





## sourcing strategy

### Diagram

**Production Cycle:**  
ODLO produces 2 collections per year. The production cycle involves a large number of steps. Illustrated in simplified form (as an example for summer 2010 collection).

The producers are involved in the order planning process within the development period (about 11 months prior to the final order placement).

Both sides agree on the lead times. The lead times (time between order placement and delivery) are based on the material as well as the product complexity (between 3 – 5 months).

Throughout the entire production cycle, the producers are in close contact with the ODLO management.

### Sourcing strategy & pricing

The ODLO sourcing strategy is based on the following principles:

#### Priority 1: Own production

To the extent possible in terms of capacity and know-how, new garments and/or additional production units are manufactured by our own factories in Portugal or Romania.

#### Priority 2: Long-term partnerships

Whilst other producers make use of hundreds of producers and have them compete against each other or switch them every season, ODLO aims for long-term partnerships with a small number of producers under the motto of «less is more».

The growth in sales targeted by ODLO should, to the extent possible, be achieved with those partners. For each season, at most one additional producer is taken into consideration after careful selection based on a set of mandatory criteria.

This policy enables the producers to plan for the long term, leading to more stability and job security.

### Pricing policy

ODLO calculates its prices using the «open costing» principle. This means that for every product, the sales price is calculated individually, taking into consideration the material and work costs, overheads (headquarters, marketing, etc.) and the profit margin. This price is negotiated directly with the producer. ODLO does not work on the basis of tenders, i.e. there is no generation of additional competition between the producers.

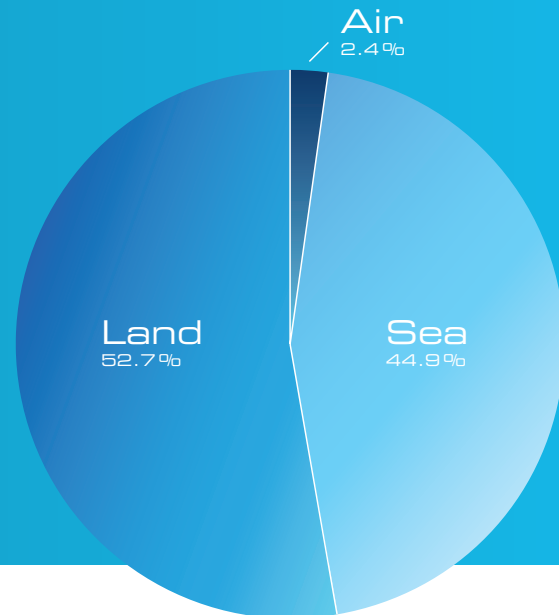
### Length of relationships with producers

Duration of cooperation	Number of producers
More than 10 years:	5 producers
7 – 10 years:	3 producers
4 – 7 years:	6 producers
Less than 4 years:	4 producers

### Organisation of the sourcing & production department

ODLO has a small, well-orchestrated sourcing & production team with 5 members who work closely together with the Product Management team. They all work in the same building at the ODLO headquarters in Switzerland, resulting in short, flexible information and decision-making routes.

only 2.4 percent of goods  
have been transported by air



## sourcing strategy

Diagram  
Transportation of goods  
Summer 2009 & Winter  
Winter 2009/2010

### Transportation

ODLO does everything it can to arrange transport by sea wherever possible. That is the best alternative from both an ecological and economical point of view.

ODLO is proud that for the Summer 2009 and the Winter 2009/2010 seasons, a total of only 2.4 percent have been transported by air (reasons: short-term supplementary orders from the specialist dealers, early delivery windows for retailers or late deliveries from producers).

### Selection of new factories

**ODLO applies a 4-step plan in the selection of new producers:**

Step 1: 1st Producer Meeting for new collection (Head of Sourcing & Product Manager)

Step 2: Research of new producer if no existing partner can deliver

Step 3: Visit by Head of Sourcing & Production at new potential producer, check against ODLO MUST Criteria

Step 4: Final decision through Executive Board about new producer

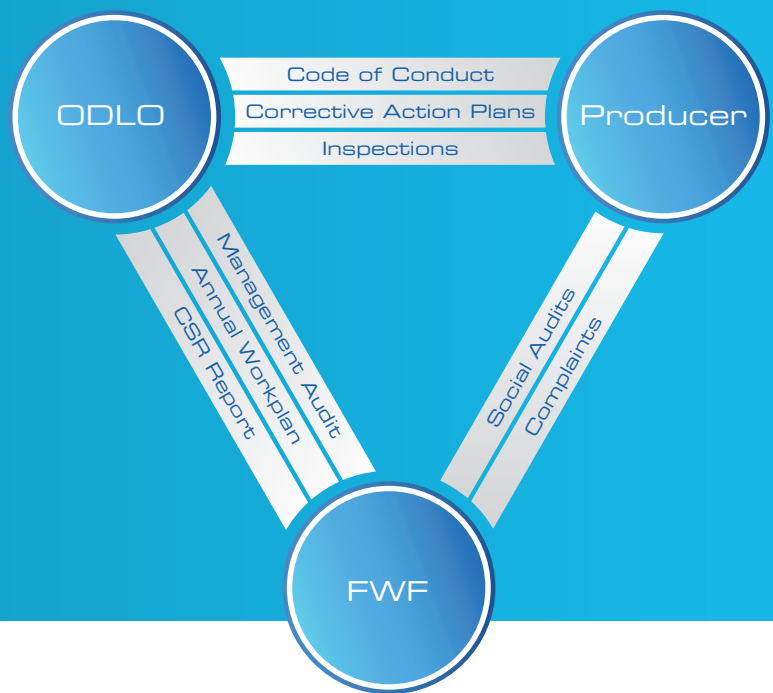
The new producer must fulfil at least the following **ODLO MUST criteria**:

- A professionally managed company; «state of the art» production
- Willingness to sign and comply with the ODLO code of conduct
- ODLO quality standards can be complied with
- Management & operations are regarded as good during an inspection by the Head of Sourcing & Production

As ODLO works with less than 20 producers and selects a maximum of 1 new producer per season, the process outlined above has proved to be adequate until now to make a good choice. However, as a member of the FWF, ODLO has committed itself to standardising its processes in order to reduce the reliance on individuals persons and further exclude any wrong decisions. In this respect ODLO intends to further develop the selection process in 2010 (introduction of a producer assessment).

## ODLO Monitoring System

The current monitoring system is comprised of the following instruments:



## coherent system for monitoring and remediation

Diagram  
ODLO Monitoring System

An important component of the implementation of the Code of Labour Practices is monitoring. The current monitoring system is comprised of the following instruments:

### **Code of Conduct & FWF questionnaire:**

All producers have been given initial information on the FWF membership by letter. They were asked to fill out and sign a questionnaire in order to confirm that they accept the code of conduct with its labour standards and that they are prepared to work towards full implementation. All of them returned the signed Code of Conduct and the questionnaire in 2009.

### **Social Audits by FWF:**

As ODLO wants to perform social audits through an external, independent company, it engages audit teams trained by the FWF to carry out factory audits. 3 Producers have been audited independently by the FWF. In total, more than 60% of the overall value of goods has therefore been audited or is being produced in «low risk countries». The results are listed under the following chapter.

### **Corrective Action Plans (CAPs):**

As a follow up on these audits, we make agreements with the producer regarding an improvement plan on the basis of the results of the inspection. This follow up is called Corrective Action Plan (CAP). At regular intervals, the producers record progress in the CAP.

### **Inspections by ODLO staff:**

Producers have been visited and inspected regularly by various ODLO staff, such as:

- Quality Assurance Team Asia and Europe
- Head of Sourcing and Production (1 – 2 times per year each producer)
- Product Management Team
- Executive Board Members
- others

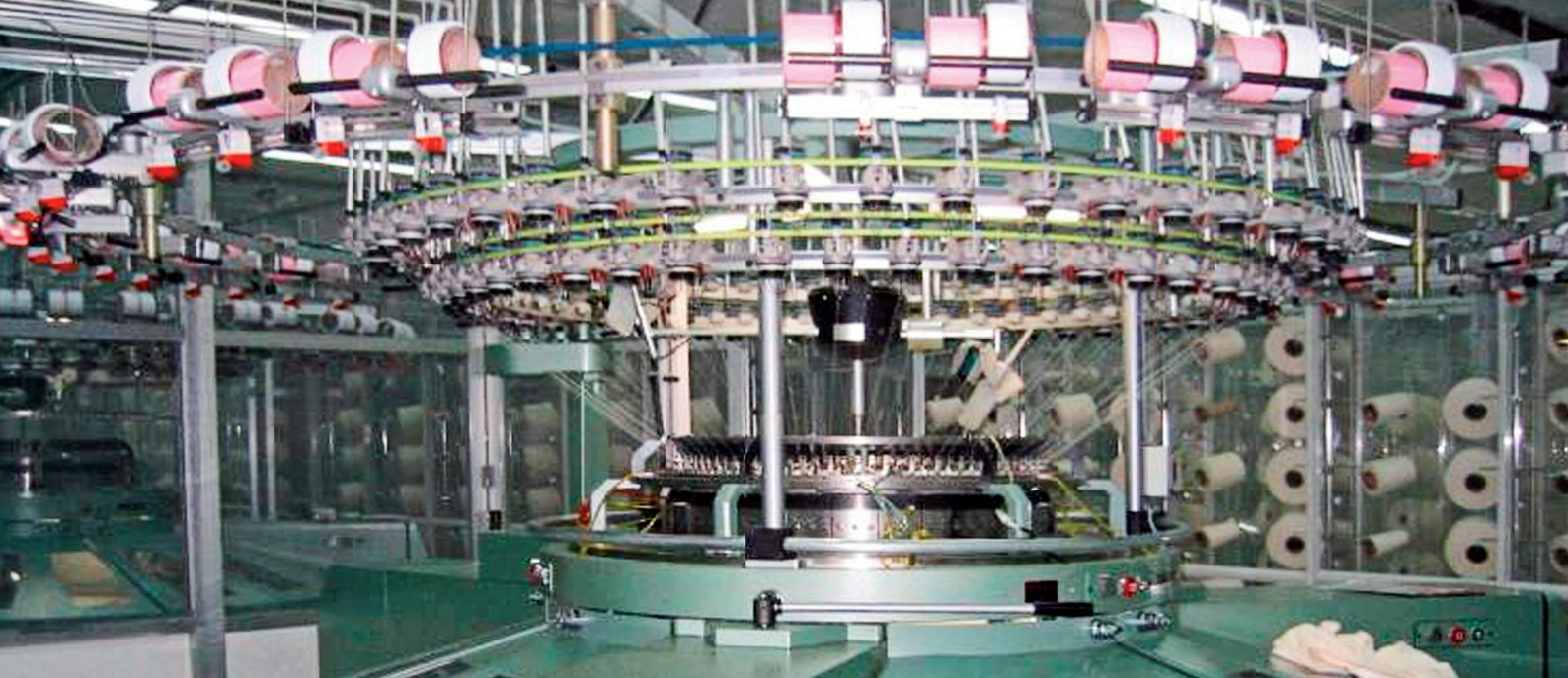
### **Complaints:**

Employees of each of the producers can register complaints about their working conditions with an independent body. That body is designated by the FWF. The body relays the complaint in anonymous form to the FWF which, in turn, informs ODLO. The «complaint system» will be further introduced in 2010, as soon as the forms are available from the FWF in the various national languages.

### **Management Audit:**

At regular intervals, the FWF also audits ODLO in the sense of process support. The results are published on the FWF website and flow into the CSR workplan and the CSR report.





## coherent system for monitoring and remediation

Picture  
High-tech knitting  
machine.

### CSR Workplan:

ODLO draws up a workplan every year which is then submitted to the FWF. That confidential document records which activities are planned for the following year. The workplan for 2010 was submitted to the FWF on time at the end of 2009.

### CSR Report:

This report functions as a controlling instrument and is published.

ODLO is planning to further develop its monitoring system during 2010.

### Monitoring by country

ODLO began with standardised audits in 2009. Until now, 3 audits have been carried out. For all of them, CAPs are available, the results being shown in summarised form in the following table.

The Fair Wear Foundation is informed about all the issues and, together with us, is monitoring the ongoing improvement measures.

**Important note:** The number of findings makes no statement about their quality. In none of the 3 audits was a serious problem identified which would fundamentally place further cooperation in question.

### Independent audits carried out by the FWF by countries:

Country	Producer Identification Number	Date of Audit	Next audit planned
Thailand	4	April 2009	2012
Romania	2	September 2009	2013
China	3	November 2009	2013

## coherent system for monitoring and remediation

CAP report by category and country 2009:		
Area of reporting	Country	No. of Findings
Management	Romania	2
	Thailand	3
	China	7
No forced labour	Romania	0
	Thailand	1
	China	0
No discrimination	Romania	1
	Thailand	1
	China	0
Freedom of association	Romania	2
	Thailand	3
	China	1
Payment of living wages	Romania	1
	Thailand	4
	China	3
Overtime	Romania	1
	Thailand	2
	China	4
Health and safety	Romania	4
	Thailand	20
	China	4
TOTAL		64

CAP progress report 2009:		
Area of reporting	Open findings	Closed findings
Management	11	2
No forced labour	1	0
No discrimination	1	1
Freedom of association	4	2
Payment of living wages	4	4
Overtime	5	1
Health and safety	17	11
TOTAL	43	21



## training and capacity building

Picture 1  
ODLO CSR Team

Picture 2  
ODLO KIDS collection

The communication measures carried out in this past year are shown in Chapter 8 (CSR Activities 2009).

### Activities to inform staff members

The following communication and information platforms have been implemented and can be used by the CSR team for communication:

Members	Communication Tool	Timing
CSR Team	CSR Team Meeting	weekly
Executive Board	CSR Strategy Meeting Executive Board Meeting	Yearly Project based
ODLO headquarter staff	Information Meeting	Up to 6 times/yearly
ODLO international staff	International Marketing & Sales Meeting	2 times / yearly
ODLO international staff	Newsletter	monthly

### Activities to inform producers, agents and workers

The producers are informed as follows:

Producers	Communication Tool	Timing
Mgmt of own production (ODLO Portugal & ODLO Romania)	Direct contact (phone, e-mail) Management meetings International Marketing & Sales Meeting	Ongoing communication Up to 4 times / yearly 2 times / yearly
Workers of own production (ODLO Portugal & ODLO Romania)	Newsletter	monthly
Mgmt of producers	Direct contact (phone, e-mail) Corrective Action Plan	Ongoing communication Bi-monthly update
Workers of producers	Information board	So far not implemented





## conclusions 2009 and outlook for 2010

The strategy for 2010 – 2012 demands a continued process of improvement.

The management and the CSR team are satisfied with the results in 2009. The defined objectives were all achieved:

- All the producers have signed the new Code of Conduct.
- 3 factories were audited by the FWF as an independent organisation.
- More than 60% of the overall value of goods has been audited or is being produced in «low risk countries» – the requirements of the FWF have therefore been substantially exceeded.
- The CSR team is complete and highly motivated.

The strategy for 2010 – 2012 is available and provides further challenges to the company in the continued process of improvement. With the support of the FWF, ODLO will have further producers audited in the forthcoming years and work to standardise the internal processes.

ODLO believes that its customers appreciate the value of sustainability and the measures that have been implemented. The CSR team is available for any questions and further ideas.



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