

EST. 1853



# *Transparency Act Report for Devold of Norway*

2023-2024

DEVOLD

This report complies with Section 5 of the Norwegian Transparency Act (the “Transparency Act”) concerning the duty to account for due diligence. It summarizes Devold of Norway’s (“Devold”) supply chain structure, policies, and the procedures for protecting human rights and ensuring decent working conditions. It also shows how Devold carries out due diligence and what this results in.

The information in this report is valid for Devold of Norway and its subsidiaries, these include UAB Devold (including Devold SIA, Devold SIA Production, Devold New Zealand, and Scandye UAB), Devold GmbH, Devold Retail AS, and Tova AS. Any questions regarding this report can be directed to [stakeholders@devold.no](mailto:stakeholders@devold.no).

## About Devold

Devold is a textile manufacturing brand, with a vertically integrated supply chain, serving sports and leisure wear and protective work wear markets. The company handles product development, design, production, sales, and distribution. Privately owned by the Flakk Group and headquartered in Langevåg, Norway, Devold achieved a turnover of over NOK 532 million in 2023, employing 492 employees across five countries. Devold of Norway employs 41 people in Langevåg and Lysaker, Norway. It has administration in Norway and Lithuania, and sales offices in Norway and Germany.

Devold owns 62% of Tova, a company that produces merino wool slippers in Mongolia, employing 4 people in Norway. Originating as an aid project by the Norwegian Agency for Development Cooperation, Tova has evolved into a business and now supports 60 factory staff and 40 nomadic families.

Devold’s supply chain includes a textile mill (knitting and cut-make-trim) in Lithuania producing over 90% of our sales volume, supported by a sewing site in Latvia, a 47.25% stake in a dyeing plant in Lithuania, and a direct wool sourcing company in New Zealand. The General Manager of the mill sits on Devold’s Executive Board.

Devold is committed to respecting fundamental human rights, as set out in the UN Guiding Principles on Business and Human Rights. This responsibility means acting with due diligence to avoid infringing on the rights of others and addressing any adverse impact from Devold’s direct or indirect operations. For over 170 years, our business dealings have always

respected people’s dignity. Today, this commitment extends throughout our supply chain.

Devold underwent significant transitions in 2023, marked by leadership changes. The incoming CEO strengthened the Executive Board by adding a Chief Sustainability Officer (CSO). The introduction of the CSO role was partly driven by the need to update, formalize, and properly implement relevant due diligence policies and operating procedures to align with the OECD Guidelines. We also appointed a new Head of Product and a Chief Marketing Officer.

Since the last reporting period under the Transparency Act, Devold has taken additional steps to enhance the breadth and depth of its human rights and environmental due diligence. We joined the Ethical Trading Initiative to better address systemic issues in more remote parts of the supply chain, outside the wool industry. We have reinforced our commitment to human rights and transparency by utilizing the Open Supply Hub platform to display and share information on our fully traced supply chain.

## Governance of human rights

### Governing documents

Devold’s principles for conduct are outlined in our Human Rights Policy, which steer underlying processes and governing documents. The policy applies to all business areas and their supply chains. It sends a clear signal to our internal and external stakeholders and help to raise standards across the board. The policy extends Devold’s human rights commitment to environmental harm, recognizing its impact on people’s right to an adequate standard of living.

Devold's Sourcing Principles are based on international standards and the Ethical Trading Initiative's (ETI) Base Code. They establish a mutual obligation for Devold and its suppliers to implement and maintain a human rights due diligence process that is preventative, risk-based, and ongoing. This goes beyond local compliance, acknowledging that some countries may not have laws that meet accepted human rights and environmental standards.

Devold's internal Supply Chain Procedure provides clear guidelines for assessing human rights risks and supplier performance when approving potential suppliers, and monitoring during the contractual phase. The level of due diligence is based on the inherent sustainability risk. Together, these governing documents commit to and operationalise our commitment to respect human rights.

## Responsibility

Devold's due diligence efforts have Board-level oversight. The Board approves and owns the Human Rights Policy, with the current version approved on 29 April 2024. The Policy undergoes annual reviews, or a more frequently if shortcomings are identified through Devold's ongoing human rights due diligence process. According to the Human Rights Policy, Devold is obliged to biannually report salient human rights risks to the Board, or whenever significant new risks of adverse impacts arise. The first reporting period under the updated policy is Q3 2024.

Devold's CEO holds responsibility for the overall operations of the company, including integrating our human rights commitments into the business strategy, practices, and the daily work. All the company's governance documents, that operationalises the Human Rights Policy, are approved by the Devold Executive Board.

Oversight of human rights risks and compliance falls under the purview of the CSO, who leads strategy development, supplier onboarding, and monitoring

processes. This includes training and support to mitigate risks of adverse impacts on human rights and the environment across our operations.

Implementation of our due diligence process is a shared responsibility among line managers, with direct support from the CSO. Our sourcing teams manage daily supplier relationships, including the General Manager of Devold New Zealand who oversees our partnership with Sheep to Shop wool growers. All employees are responsible for ensuring that they understand the Human Rights Policy and the Sourcing Principles, and for voicing any concern they might have as a result.

## Our approach to due diligence

### Operating context

Devold has integrated due diligence into its business strategy and operations through:

- Vertical integration of the supply chain
- Moving all processing steps (scouring, top-making, spinning) of wool to the EU and Uruguay to reduce environmental impact
- Direct sourcing where possible

Devold maintains vertical integration as part of our quality strategy, significantly mitigating the inherent risks of labour rights violations in global supply chains. Unique to our industry, Devold operates its own dyeing plant and textile mill, ensuring complete control of the production process. All our employees receive a living wage and work in safe conditions.

Devold partners with external manufacturers (Tier 1) for products requiring expertise beyond our textile mill's technical and machinery capabilities. This is limited to the product categories caps, beanies, mittens, and socks, accounting for approximately 10% of our net sales volume. These partnerships are stable, with collaborations with our three Tier 1 suppliers beginning in 2007, 2013 and 2023, respectively.

Along with measures to structure the supply chain, Devold adheres to a principle of sourcing from countries with robust legislative and regulatory frameworks that uphold human rights and animal welfare standards, while minimizing the impact of corruption. We also evaluate potential sourcing geographies based on their adoption of clean energy, Entry into a country without these legislative enablers, requires heightened due diligence from our side.

Selecting sourcing countries with supportive human rights legislation is important, but it alone does not prevent labour exploitation. To further mitigate risk, Devold prioritizes direct sourcing and maintains a stable supply base, including at the raw material level.

Devold's Sheep to Shop program is developed in close collaboration with the wool growers. This program facilitates direct, long-term contracts with wool growers at fixed prices, securing a continuous supply of high-quality wool and strengthening the wool industry. Devold fosters these direct relationships with individual growers wherever possible. In Norway and the Falkland Islands, where farmers' associations exist, we collaborate with these groups. Tova sustains 60 employees at a felting factory specializing in wool slippers and ensures a fair income for 40 nomadic families who supply merino wool to the operation.

With this context in mind, Devold has a comparative advantage in driving positive impact within the wool industry.

## **Our due diligence process to avoid and address adverse impacts**

### **Qualifying suppliers**

Our due diligence follows a risk-based approach. The Supply Chain Procedure provides the criteria for establishing or updating contracts, based on price, logistics, service, quality requirements, environmental standards, and human rights.

Devold qualifies suppliers based on clear due diligence requirements. Suppliers failing to meet our transparency and environmental standards will be removed from the process. Our risk assessment identifies key risks including country, sector, and production specific factors (e.g. worker vulnerabilities based on the required skill level for the work being done and type of employment, such as permanent, seasonal, or agency work), the supplier's own capabilities to address risk, and our procurement leverage. To support this process, Devold uses Adda's country risk ratings, which is based on the Worldwide Governance Indicators (WGI), the ITUC Global Rights Index (ITUC GRI), the Environmental Performance Index (EPI), and Corruption Perception Index (CPI). For intensive processes, we also assess a country's energy mix during initial evaluations.

The level of due diligence varies based on the inherent sustainability risks. High inherent risk suppliers undergo on-site assessment of labour and environmental conditions. Devold supports multi-stakeholder initiatives like the Social & Labor Convergence Program (SLCP) or ILO Better Work instead of proprietary audits to reduce audit fatigue and increase the quality of these assessments.

In 2024, Devold established a Supply Chain Committee, a cross-functional team that convenes as needed to manage supplier-related risks. This includes addressing disagreement over potential supplier onboarding. Ultimately, the responsible sourcing team or the CSO have the authority to reject a supplier if there is evidence indicating insufficient commitment to upholding human rights.

### **Monitoring and managing the contract phase**

Devold maintains close and regular contact with its wool growers and wool processing suppliers, with frequent visits from (and to) Devold's textile mill and headquarters. This direct relationship increases the knowledge of who we choose to work with and reduces reliance on external social or animal welfare



certifications. Our New Zealand General Manager provides ongoing support to Devold's wool grower partners.

In 2024, Devold conducted a comprehensive mapping of workforce demographics and risk metrics across all active suppliers and tiers. This mapping identifies factors that may increase worker vulnerabilities, such as gender breakdown, presence of migrant workers, freedom of association with an affiliated union or freely elected worker committee at the sites, and environmental performance indicators.

To increase the reach of our monitoring and help manage risk in our supply chain, Devold decided to publish a complete list of active suppliers, across all tiers, as of May 2024 on the Open Supply Hub. Data sharing on this platform improves stakeholder engagement and facilitates collaboration with civil society, unions, and industry peers. The information includes contact information for suppliers, and additional datapoints used in our assessment and for external stakeholders' assessment of our performance. Devold's interactive map will be updated at minimum twice a year and can be accessed on our website.

Devold exceeds the requirements of the Transparency Pledge, by including all tiers, and for allowing scrutiny of relationship length and nature with each supplier, even within lower tiers of our direct suppliers. Devold sees these as important indicators of our sourcing practices. Finally, Devold has an open whistleblowing channel through the Flakk Group, and one for our supply chain, to help alert Devold to human rights abuses. Our sites have operational-level grievance mechanisms, with different options available for staff to raise concerns.

### **Risk assessment**

In 2024, Devold conducted a preliminary double materiality assessment, to guide our strategy development and prepare for our voluntary commitment to report under the Corporate

Sustainability Reporting Directive (CSRD) in 2025. This assessment identifies topics we can have an actual or potential adverse impact on, and topics which have a material, financial impact to Devold.

At a general level, there exists inherent risk of human rights violations within Devold's supply chain. Here are the potential risks identified to people in our supply chain:

- On our own employees in offices: stress and health issues due to high work pressure and challenges with work-life balance.
- On our own employees in the industry: stress and health risk related to work pressure in administration, and occupational health and safety in production.
- People throughout our supply chain, including lower tiers: lack of freedom of association, inadequate grievance mechanisms, hazardous working conditions, excessive working hours, unfair wages, discrimination, sub-contracting risks, and modern slavery.

Oversight is easier if the inherent risk is low – that's why we have a quality strategy and fewer ingoing materials in our production.

All Devold entities comply with the Base Code of the ETI and local laws. This includes paying a living wage for our employees. Our internal production accounts for 90.2% of net sales volume to date. Devold's main categories, including all Devold Protection products, are produced in our own textile mill.

The inherent risk in the wool supply chain is notably low due to our close collaboration with upstream suppliers, from wool growers to yarn processors. We have mitigated negative environmental impacts by relocating processing steps to EU countries and Uruguay, countries with stringent oversight and environmental standards, and selected sound partners. Devold's internalized production and stable, long-term relations with external Tier 1 suppliers, reduce risks of unauthorized sub-contracting and the exploitation of workers and the use of 'off the books' workers.

Still, our external tier 1 suppliers, and accessory suppliers (i.e. zippers, buttons, logos) for our internal production, pose moderately higher risk due to weaker oversight of their supply chains, and potential environmental impacts. All Tier 1 suppliers and sub-suppliers for production, either have on-site unions or elected worker committees. Our supply chain has a small portion of migrant workers, who may be more vulnerable to human rights violations.

Lastly, seasonal work in the shearing period presents physical labour challenges, including occupational health and safety concerns such as back pain and long hours. Recruitment is competitive both in retention and people are difficult to recruit, which lifts wages. Devold's General Manager in New Zealand collaborates closely with wool growers before the shearing season, providing training to seasonal staff to ensure proper wool sorting and handling practices.

#### **Mitigation of risk**

Devold relies on a well-functioning wool industry and will continue implementing procedures to mitigate risks and to create shared opportunities.

Throughout 2023 and the first half of 2024, Devold concentrated on establishing a more systematic approach to monitor supplier due diligence and contractual follow-up of lower tiers. We will continue to implement these procedures, which includes ongoing risk monitoring, including by regular visits to suppliers and from strategic suppliers to our textile mill. We will follow up on our supply chain mapping of risk metrics, focusing efforts on areas with the highest risk regardless of tier. Identified risk areas include migrant and seasonal workers, as well as the absence of functioning unions or freely elected workers' committees in lower tiers.

Devold will support unionization efforts at our textile mill as this secures better worker representation and functioning.

#### **Remediation of potential and actual adverse impact**

In 2023 and 2024, Devold conducted a thorough human rights due diligence and identified that we are still short of our goal of ensuring 100% of workers receive a living wage in the production of our products.

Devold's employees, including those in production, receive a living wage, which can be easily verified with payslips. However, while all our external Tier 1 suppliers and their sub-suppliers producing our final products pay above the local minimum wage, not all meet the estimated living wage standards. This gap has widened in recent years as wages have not kept pace with soaring inflation rates and increased living costs. We benchmarked estimated living wages (using the Anker Reference Values for living wages and living income) against the lowest wage paid to workers (not the average) and identified gaps. We are confident that 93.1% of workers producing our products receive a living wage. For the remainder of workers, the data is either unclear, or shows discrepancies. Devold will continue to improve internal sourcing practices and collaborate with suppliers and other buyers from the same sites to improve conditions also beyond our direct contacts for Tier 1.

Moving from a systemic issue in the industry, to one within our operational control, at Devold's headquarters in Norway, we have identified a possible misclassification within the 'particularly independent post' category. Addressing this issue requires a comprehensive review, considering specific job responsibilities and total compensation. Devold will collaborate with employee representatives and affected employees to resolve this.

At the Devold mill, we are addressing potential non-significant adverse impacts, by enhancing employee motivation and fostering inclusivity. Following a 2023 colleague feedback survey, we identified key areas for improvement: management training to better involve employees in decision-making, improving

communication between management and staff, and integrating staff into company processes more effectively. To lead these efforts, we have hired an HR Manager to the mill's management team. Devold will repeat the survey every two years.

In October 2023 a 1,5-day strike at Tova's manufacturing site in Mongolia prompted a town hall meeting to address pay issues. This led to a mutual agreement where Tova committed to increase the price paid per product, contingent upon efficiency improvements in production, and staff adherence to quality requirements. As a result, staff received a 20% increase starting 1 January 2024, bringing the salary up to twice the national minimum wage level. Additionally, Tova has appointed dedicated personnel to oversee lean management and implement new productivity measures.

#### **Focus in 2023 and plans for 2024 / 2025**

In 2023, and first half of 2024, the main deliverables have been:

- Improving business conduct and payment terms with suppliers
- Strengthening governing documents on due diligence and implementation of these
- Hiring a CSO on the Executive Board, an HR Manager and a Finance Manager at Devold's mill
- Collected baseline data of all active suppliers' workforces, the level of freedom of association, duration of supplier relationships, and the prevalence of type 1 Ecolabels
- Furthered transparency and industry collaboration through membership in Ethical Trading Initiative and sharing our suppliers openly on the Open Supply Hub
- Advocacy for the mandatory due diligence regulations Corporate Sustainability Due Diligence Directive and the NY Fashion Act

To further strengthen Devold's commitment to human rights and decent working conditions, Devold plans the following activities for 2024 and 2025:

- Continue to improve business conduct to better support suppliers in achieving shared goals
- Review employee contracts in our own operations and promote unionization at our textile mill
- Continue implementing the processes outlined in the updated governance documents on due diligence
- Develop internal training to build awareness for relevant roles, covering due diligence topics and procedures. Deliver a separate track on HR training for middle management and administration at our mill for better worker engagement
- Advocate for use of multi-stakeholder initiatives instead of proprietary audits at shared supplier sites, and investigate opportunities to implement SLCP at own sites
- Develop contractual management practices for suppliers, including annual supplier reviews
- Support wool growing partners by working with shearing contractors to verify payments to contracted workers during shearing season, to have this documentation at hand
- Continue to work with our supply chain to increase efficiencies to remain competitive and lower our emissions and resource usage
- Tova will focus on maintaining regular production orders to secure regular income levels



Langevåg, 27 June 2024

Devold of Norway

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