

MADNESS

THE NATURE TEXTILE COMPANY

Social Report 2016

Start date membership: August 2014

Reporting period (financial year): Jan – Dec 2016

MADNESS FEELS

**GOOD
ORGANIC
FAIR**

www.madness-online.com

Our company values are action pointing for our internal and external behaviour. Our team, our supplier, our service provider, and our customer are all treated the same way. Appreciative, and equal at eye level. Our values are built on three pillars, and are consistently expressed in the design of our collections to make everyone in the lifecycle of our products feel comfortable.

Human first – Deference of our environment – Honesty

"The importance for improving the labour conditions in the supply chain of the garment production is not far to seek. The motivation to work is increasing and in bad cases decreasing proportional to the improving, or deteriorating labour conditions. We are looking for better labour conditions in our production and envisage a higher quality for our products. Therefore the expected improvements of labour conditions bring along a win-win situation for the different stakeholder in form of workers in productions units, for us as a brand, for the owner of the factory and nevertheless the consumer. Also we will ensure that our products can be sold and worn with a pure conscience, what is a special benefit beside the improvement along our supply chain and will be verified throughout a higher transparency along our supply chain."

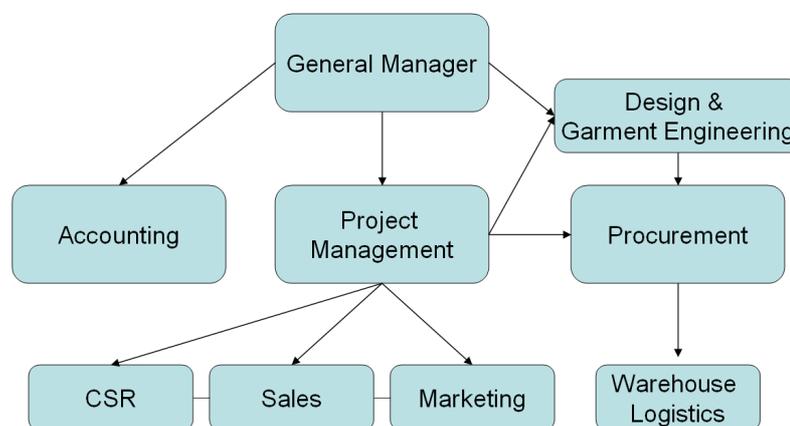
– M.Warnke, General Manager –

"Valuable products deserve a perfect treatment. A perfect treatment is only possible, if persons that operate in the production sector can focus completely on the production of the goods."

"We make it our business to give the executing, and managing persons that are responsible for the production, the possibility to focus on their work without being distracted from that focus by unsecure, and unfair labour conditions."

– P. Meyer, Project Manager CSR –

Organisational overview MADNESS



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1. Summary: goals & achievements 2016

Our goal is to establish a complete sustainable product lifecycle according to our company values:

Human first
Deference of our environment
Honesty

To establish all of our values alongside our supply chain we decided to always only use natural, and eco friendly raw material¹ for our products, and manufacture all of our goods under the strict compliance to the Global Organic Textile Standard (GOTS). As we believe that sustainability is a holistic, and action orientating philosophy, we also want to produce our eco-friendly goods under fair conditions for our partner² alongside the supply chain of our products.

We believe that there will be always place for improvement in everything we are doing. And because of this fact we are also aware, that the work towards reaching the goal of a holistic sustainable product lifecycle will never end.

In 2016 one of our main goals has been the reduction of overtime at our main supplier. To reach this goal we executed a root cause analysis to isolate the main sources of overtime. The results of the root cause analysis have been that overtime work at our main supplier can mainly be positive influenced by the following processes:

- 1.) **The preparation phase "A"** (design and garment engineering): This phase shall be optimised by adjustments of required documents for the production (e.g. worksheets), and technical vocabulary, to ensure an adequate, and punctual preparation of required information/documents for the production. There are already existing beta versions of the essential documents. As trials have been promising, the finalisation of this project, respectively the first usage of the finalised documents, as also an introduction of general valid and defined technical vocabulary will take place in July 2017. The reasons for this change have been long lasting reworks, and problems in the execution of our manufacturing procedures, which occurred due to miscommunication.
- 2.) **The preparation phase "B"** (assessment of pre production samples): The second part to decrease overtime in the production process is an earlier production release by our garment engineering department. As we can not reduce the amount of work in this department, we try starting this phase earlier, to enable a longer period of time for the production process of our goods. That means the pre production samples / size set samples shall already be ordered already in our sales phase. We started this project in July 2016, and noticed that the impact of this strategy is not as big as planned in the work plan for 2016. We also noticed the an earlier production release will only influence overtime in the production if the supply chain of all subcontracting parties is providing the "CMT" in time with all required materials. Thus

¹ Used raw materials for our products are organic cotton, organic virgin wool (Merino), linen, and Kapok.

² As partner alongside our supply chain we understand all different stakeholder, as there are production worker, production manager, subcontractor, service provider, NGO's, our internal team, customer, and the consumer of our goods.

the impact of this project is depending on the performance of the subcontracting parties or on our leverage on this part of the supply chain. We still use to work as described before, because on the other hand a late release for production can still have a negative impact on working hours.

- 3.) **The production phase** (waiting for subcontracting parties): By analyzing the durations of processes in our supply chain, we noticed that subcontracted processes (as printing, dying, weaving, and knitting) have the biggest impact on emerging overtime hours in the "CMT" of our manufacturer. Overtime in our CMT process appears, as the CMT has to wait for goods – which are supplied by Parvatis subcontractors for processes as weaving, dying, printing, etc – to start the production, and a lot of those subcontractors are shelving Parvatis orders as long as they can because of their small order quantities. A decrease of this influence can take place due to a vertical extension of the production processes from our main production unit. In 2016 we tried to vertically extend the production process due to an integration of the eminently difficult printing process at our manufacturer. But we had to learn how difficult it is to control the printing process, and out of this reason we had to outsource huge parts of the printing process, to ensure our usual quality for our customers. In 2017 we still work on developing our printing know-how, to become more independent of external printers in the future.

Another option would be to increase our leverage on subcontracting processes that are upstream to the in house "CMT". Higher purchase quantities make higher leverages possible. We decided, to support our main manufacturer Parvati Fashion (PF) to acquire new customers around Europe. Furthermore we are working on our own growth to increase quantities of our production, what will also increase the purchase quantities of PF and due to that have an impact on the leverage of upstream processes. Our first success has been in 2016 where we connected Parvati Fashion with one of our German competitors, and they already placed their first purchase order for autumn winter 2017.

We also made sure that before new workers can start with their work, all of them will get an introduction to their rights and duties. And all new workers are disabused about the agenda of MADNESS, and our cooperation with FWF, as also FWF's intentions.

Our conclusion is that until now we have reached subgoals as described before, but plan preventive steps to avoid excessive overtime problems in the future. In the moment we are discussing actions to be taken place. One of these actions is to implement a three shift system with changing work force, for peak times. Until now we couldn't notice any further overtime problems, but we plan to evaluate the working hours more efficiently in cooperation with the external partner of PF's internal complaint committee.

2. Sourcing strategy

2.1. Sourcing strategy & pricing

In 2016 we changed our sourcing system from being a single sourcing³ company to a dual sourcing strategy. We decided to complement our production capacities for additional product groups at the Turkish supplier Temo Tekstil. After our first purchase we decided to stop the cooperation with Temo and concentrate on PF again. This happened out of different reasons, but the main reason has been that we wanted to strengthen our partnership with Parvati Fashion. Our pricing and sourcing strategy has not changed in 2016. We are still a cost-plus pricing company and still accept the prices that occur due to changing raw material prices and currency fluctuations. We trust in our partner to calculate prices that are compatible for our whole supply chain. Price negotiations will only occur for particular lots if high order quantities for are enabling lower production costs.

2.2. Organisation of the sourcing department

The sourcing department of MADNESS consists of the General Manager as Head of purchase and the last instance for making decisions. As also the Project Manager to source new supplier by sustainable points of view (GOTS certified supplier and high labour standards appropriate to the ILO standards), to ensure a sustainable production. We will only source new suppliers if the technical process won't be mastered for required elements of our portfolio, or the production side of the supply chain reaches its limits. As mentioned before, the sourcing department consists of two people. One Project Manager, that is narrowing down the choice to a minimum of qualified potential new manufacturers. While this first view, the project management makes sure (as far as it is possible) that the sourced production unit will work in compliance to our sustainable standards. The Project Manager is the first person of MADNESS that is getting into touch with potential new manufacturers and discussing topics like the FWF standards with them to make clear if it makes sense to start a cooperation. Afterwards we are introducing the FWF standards and have a first look at what we can be improved and what has to be adopted immediately before we start the business (a first overview can be received through current and valid audit reports, FWF country studies, or an initial audit). If we get to know that other FWF member are also buying at the explicit new manufactory, we will contact them and ask to cooperate with us, to use our combined leverage to improve the prevailing labour conditions.

The second person and higher instance, respectively decision maker in this case is the General Manager of MADNESS. He is visiting the new manufacturers before MADNESS is doing business with them. After this visit we make clear when it will be possible to let an FWF audit take place at this factory, unless one has already taken place and can be used for our purpose (is shared by other FWF members).

³ Single sourcing is a sourcing strategy. The strategy means that the sourcing company is only sourcing at one supplier.

2.3. Production cycle

MADNESS is producing two collections per year

MADNESS is presenting two different collections per year – Spring/Summer and Autumn/Winter. Currently our winter collection makes ca. 50% of our total turnover and the other 50% is generated by our summer collection. In general we have a pre-order period in which our customers order. MADNESS Customers can be separated in 2 parts, from which every part makes ca 50% of our turnover: Part1 - The mail order companies; Part2 – The boutiques and other smaller retailer. The mail order companies are the first that see our sample collections and the first customers that order. For them we have 3 months lead time. Referring to Part2 we have 4 months lead time. We let 10-15% more goods be produced than ordered. The costs for the overproduction are covered by MADNESS, because most of the Part2 customers are used to do additional orders.

The order of our Spring Summer collection is now placed in the beginning of September. We changed the date for the order placing in 2016 from mid of September to the beginning of September, to get more time for the production period.

The order of our Autumn Winter collection is placed in the beginning of March. We changed the order placing date for this season by around half month (before we placed the order at the end of March), to get more time for the production of our goods.

The following process is showing a typical production cycle at MADNESS (some of the following sequences can take place concurrently)

- | | | |
|------------|--|--------------------|
| 1.) | Evaluation of the last seasons | →1 week |
| 2.) | Planning the new season + sampling phase | →4.5 months |
| | →Incl. development of new products | →3.5 months |
| | →Selection of the new color range | →1 month |
| | →Determination of the new portfolio (styles, qualities, size of the portfolio) | →2-3 months |
| | →Visits of production units | →2-3 weeks |
| 3.) | Sales (season) | →1.5 month |
| | →Incl. exhibitions, catalogues, house calls | |
| 4.) | Production | →3-4 months |
| | →Material calculation | →2 weeks |
| | →Cut, Make, Trim | →3 month |
| | →Outsourcing of printing | →2-3 weeks |
| | →Incl. QM | →2 weeks |
| | →Visiting manufacturers / Production monitoring | →2 weeks |
| | →Shipment (Air freight / Sea freight) | →1-5 weeks |

2.4. Supplier relations

We are known for long lasting business relationships. Out of this reason we focussed again on the cooperation with our main supplier Parvati Fashion and stopped sourcing at Temo Tekstil after our first purchase in 2016. Trust and close contact are part of our relationships. We are always looking for as much transparency, in all processes of our supply chain, as possible. We are sure that transparency is strengthening the trust in relationships and also the foundation for help, because if we do know what's going on in our supply chain, we can help finding solutions to solve emerging problems.

After our trial purchase in Turkey, we are now sure that only under special conditions we would shift parts of our purchase orders to other supplier. The reasons for a partial shift of our purchase orders would be, if PF would not be able to produce particular product groups, or if PF is letting us know that they could not do the whole job because of their capacities.

An evasion supplier should have the ability to produce smaller quantities of a huge range of products, and also be able to produce our ordered goods in time. In general we have lead times of 3 or 4 months. 4 months when ordering for our small customers and 3 months for the production of our mail order customers.

MADNESS is working with a philosophy that is built on three pillars, Human first, deference of our environment, and honesty. Our philosophy is helping us achieving integrated sustainability for the whole supply chain of MADNESS. Because of our philosophy an evasion supplier must be in the position to produce our garments in an eco-friendly way which is certified, verified, and controlled throughout the GOTS. That evasion supplier must also satisfy our philosophy human first. In other words, if we are looking for an evasion supplier, we look for one that is already working with social and ecological standards, which are satisfying our philosophy, and the need of our cooperating NGO's, the Global Organic Textile Standard and FWF.

We partially work with other brands when we are looking for new suppliers. When we are working with them, we try to ask other brands, if they are working with manufacturers which are satisfying our sourcing policies and what experiences they made while their liaison.

As already mentioned before we have been a single sourcing company in 2015 and became one again in the end of 2016. In between 2016 we sourced from Temo Tekstil, because of two product groups Parvati Fashion wasn't able to produce. We decided to shift a part of our collection to Temo because of their production techniques which are not used in India, so we could exceed our product range for 2016. Before we started cooperating with Temo we sought information about Temo from other FWF member. Those two FWF member shared their audit reports with us, so we could get an insight about Temos activities, and make sure that they would satisfy our philosophy.

2.5. Integration monitoring activities and sourcing decisions

Throughout our monitoring activities and especially an FWF audit, as also a complaint concerning excessive overtime in the production, we decided to make a root cause analysis. The outcome of this analysis has been that there are different reasons that cause overtime. We decided to change some of our processes as described in section 1. Summary: Goals and achievements. The goal of those changed processes is to enable a longer lead time for our manufacturer.

We as MADNESS are sure that we play a big role in this context and made sure that we do all we can to reduce the reasons for emerging overtime in our garment production.

For 2017 we plan to broaden our influence on subcontracting supplier of Parvati Fashion. Furthermore we try to set up more know-how at PF to enable the progress towards becoming a more vertical manufacturer.

3. Coherent system for monitoring and remediation

3.1. Parvati Fashion / India

Parvati Fashion is a Noida based organic garment manufacturer specialized in producing women wear. PF has 75 employees (11 female and 64 male). Four employees are employed as managerial staff (0 female and 4 male), 71 are production workers (11 female and 60 male). 53 employees are permanently employed (11 female and 42 male), 22 are piece rate worker (0 female and 22 male). Parvati engages in sampling, cutting, stitching, sewing, and finishing processes.

With the monitoring activities relating our main production unit, estimably 90% of our production is under our own monitoring. 7.5% are outsourced production steps to subcontracting factories of our main production unit Parvati Fashion, and the other 2.5% are sourced from Temo Tekstil. In 2016 the biggest part of our production took place in India. For 2017 our complete production will be realised in India again.

Our whole Indian CMT takes place at one Parvati Fashion. We are visiting the factory in general 4-5 times a year. In 2016 we visited Parvati Fashion four times. When visiting a factory, we try to get the best overview on production circumstances as far as labour conditions. We are sure, only having a short look into the production unit and checking a list like a health and safety checklist isn't everything. This is why we decided to cooperate with an external consultant and let audits take place periodically.

After an audit which has been realised in 2014 at Parvati Fashion, we have been aware of the situation and got to know about a lot of points which have been addressed in the corrective action plan. We tried to help Parvati to improve their working conditions and situation in compliance with the corrective action plan of 2014. In the end of 2015 when we visited the

production unit again for a final evaluation of all required adjustments, issues that have been addressed in the CAP have obviously all been clarified.

The process to clarify if improvements have taken place and the realisation/reaction to a CAP/audit in general as followed:

- The 1st step is to discuss the CAP and audit report to the manufacturer
- The 2nd step is to clarify mentioned / unclear points of the CAP with the manufacturer from face to face at a visit of the factory (urgent things will be discussed immediately via telephone and email)
- The 3rd step is that the manufacturer is ensuring is to improve on the CAP mentioned issues
- The 4th step is that the manufacturer has to send us pictures and/or documents which ensure the improvements
- The 5th step is that we will encourage the manufacturer to let the management and the workers participate at a workplace education program
- If we notice that we and the manufacturer are not capable to solve the problems, we organise help and support by consultants.

We visited PF four times in 2016. In general we try to visit them 4-5 times a year. While this visits we take minimum one day to discuss the labour standards and other things referring to given standards from NGO's to ensure a sustainable production of our goods.

To Follow up to CAPs we are using an Excel sheet with an implemented milestone report function, which we weekly keep updated until the mentioned issues are clarified and controlled. Here we have a good overview on which points we (the production unit and MADNESS) still have to work, on which points we have delay and which ones are closed. Furthermore we are going to verify implementations and improvements by checking the discussed findings locally and by purchasing pictures and copies of documents.

The selection process of production units where we realise audits, is in our case really simple. As our main production unit is in charge of 90% of our purchase volume, we decided to start auditing our supply chain in compliance to FWF standards at this unit. As we want to ensure that all of the already taken place improvements become verified, we are cooperating with LINK ETC and realise further audits periodically at PF.

In May 2016 a verification audit took place at PF. Here we got to know about a hard regression. A lot of things that have been clarified in 2015 could not be verified in the verification audit of 2016, out of this reason we decided to cooperate with the company LINK ETC especially Mrs. Padmaja Pai. Mrs. Padmaja Pai not only helped us to implement all addressed needs of the last CAP, but also helped us building a working ICC (Internal Complaints Committee) which we established after a complaint regarding sexual harassment that occurred in September of 2016. The complaint is still open, as we could not finally make sure what really happened, and also it took a long time to establish a running ICC. But now new ICC and the management

of PF developed new standards, and regulations to prevent further issues regarding sexual harassment.

We are really satisfied by cooperating with LINK ETC, because they seem to be trusted by many stakeholders in terms of their know-how, as also passion and perseverance.

3.2. Temo Tekstil / Turkey

As we did not have a lot of leverage, and also not long cooperation with Temo Tekstil, we tried to focus on getting insights due to audit reports, and information of other FWF member that already sourced at Temo. We offered our help both of the other FWF member sourcing at Temo, but are not sure if they really required our help. There have been no complaints in the period we cooperated with Temo, what is also the reason why we could not report about any remarkable findings. As far as we know, Temo had no problems regarding exploiting Syrian refugees.

4. Complaints procedure

The complaint procedure is working as follows:

- 1.) Worker complains at the factory, and receives support by the ICC.
- 2a.) Factory and worker (ICC) can find an agreement → complaint is closed.
- 2b.) Factory and worker can't find an agreement → worker (ICC) will call a FWF complaint handler.
- 3.) FWF complaint handler let's us know about the complaint and is advising us, if we should intercede.
- 4a.) The complaint handler and the ICC could discuss an agreement with the factory → complaint is closed.
- 4b.) We as MADNESS are interceding and discussing an agreement with the factory management → complaint is closed.
- 4c.) Neither the FWF complaint handler nor MADNESS could find a solution → We arrange a discussion between the worker (ICC), the factory management and a complaint handler from FWF at the "white table".
- 5a.) The discussion at the "white table" resulted an agreement between all parties → complaint is closed.
- 5b.) The discussion at the "white table" didn't result an agreement → We discuss penalties with the factory management, compensate the worker if required, and make sure LINK ETC will reprocess the incident, to establish preventive systems.

Complaint September 2016:

The complainant claimed the she and another female worker were sexual harassed and asked intimate affection by a supervisor. The complainant and the other female worker also claimed that after they complaint at the HR manager, the HR manager and the supervisor threatened both women, and told them that they would never find work again, if they would complain at the police or the owner. Also the women stated that the HR manager fired both women after their complaint. The complaint could not finally been solved as there have been a lot of different statements. Our solution has been that we called LINK ETC, and they now established a running internal complaints committee, which developed a mechanism and a mission

statement together with the management of Parvati to prevent such issues in the future. The complaint is still not closed.

5. Training and capacity building

5.1. Activities to inform staff members

Every employee of MADNESS is aware of our FWF membership. We are proactively communicating progresses and regresses regarding social standards in our supply chain to our employees and customers. Especially our design team the purchase responsible person are briefed to make sure they do everything that is possible to ensure fair labour conditions in our garment production. All complaints, and reports are shared with our employees.

5.2. Activities to inform manufacturers and workers

All workers have been informed about our FWF membership, and the intention of FWF. All new workers are being trained and informed by the ICC about their rights and duties, as also our FWF membership and the FWF's intention before they start working at PF. All worker information sheets and the complaint handling poster are verified regularly by us and LINK ETC.

5.3. Transparency & communication

MADNESS is communicating its FWF membership on Fairs, its catalogue, the own website and in sales meetings. Furthermore we are publishing the social report on our website and if applicable the Brand Performance Check. To outline which achievements we have, and to inform about the actual state of affairs regarding implementations of the Fair Wear CoLP. The most important finding from audits and also complaints are communicated in our social report on our website.

92.5% of our production is under monitoring. 90% is fulfilled at our main production unit. Therefore we are used to have a strong cooperation with our main production unit and could persuade them of the positive sides that occur due to the improvement of labour standards in the supply chain, we had a good starting situation for the implementation of the FWF Code of Labour Practices. Due to cooperating with a lot of parties (ICC, management, FWF, LINK ETC, and MADNESS) we have improved a lot.

6. Stakeholder Engagement

Relevant Stakeholder for MADNESS are:

- 1.) The Consumer of MADNESS goods
- 2.) The producer of MADNESS goods (in importance incl. its workers)
- 3.) Fair Wear Foundation
- 4.) GOTS / the PCU Germany (Control Union)
- 5.) LINK ETC
- 6.) German Government
- 7.) Indian Government
- 8.) MADNESS customer (B2B only)
- 9.) CCC
- 10.) Rightway Organisation for Social Welfare (India)
- 11.) Indian Trade Unions
- 12.) Chamber of Commerce

Unfortunately do not all of those relevant Stakeholders engage directly in our supply chain (hereby is meant that for instance the German government is not directly communicating or influencing our practices concerning sustainability by proving our activities). Most important facts are that the wishes and thinking of our customer and also the consumer of MADNESS goods are relevant for tactical and strategic decisions. But more particularly are NGOs like the FWF or GOTS responsible for standards that we want to / have to achieve or already have achieved. This is why the stakeholders with the biggest impact on MADNESS are FWF, GOTS, MADNESS customer and the governments of India and Germany. The main communication with the relevant stakeholder groups is MADNESS having with the NGOs GOTS and FWF to keep ourselves up to date referring to topics concerning our supply chain.

A good and relevant information source related to the topic of social justice/sustainability is the FWF here we inform ourselves by reading the country study, to get to know about the main concerns in the Indian textile production. Also we are keeping involved into the topic throughout stakeholder meetings and seminars. LINK ETC is helping us very passionately to realise our goals and implement our philosophy, especially alongside the CMT process of our garment production.

7. Corporate Social Responsibility

MADNESS is supporting the organisation "Rightway Social & Welfare Society" (RSWS) now for a period of 4 years. Since we are really satisfied with the work and outcome of the organisations work, the support/cooperation shall continue for further years. MADNESS and its main production unit are especially supporting the programm "Education for underprivileged children". This program is trying to help children and young adults that live in slums and have not access to education, to find their way into the worklife and most important is giving them education where they can't afford it. Rooms are rent and services of teachers are offered to the children, to provide them education.



Our philosophy determines very strictly the topic environment protection. We are completely focussing on an organic garment production and only use natural textiles for our garments. Our goal is to adjust our whole organisational environment towards a green and sustainable company environment. Because of that all our processes are reconsidered regularly to become more efficient and appreciating our environment. We care for our environment. All our employees are encouraged to reconsider their behavior and work processes to ensure a greener future.