

MADNESS

THE NATURE TEXTILE COMPANY

Social Report 2017

Start date membership: August 2014

Reporting period (financial year): Jan – Dec 2017

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 acting bases on four core values, and is consistently expressed in the design of our collections to make everyone in the lifecycle of our products feel comfortable.

**Transparency – Deference to our environment – Human first -
Innovation**

"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. The expected improvements of labour conditions therefore 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 –

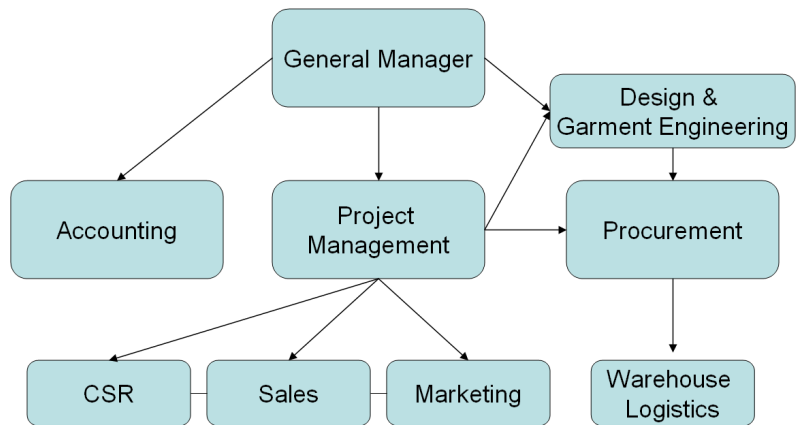
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"Valuable products deserve a perfect treatment. A perfect treatment is only possible, if persons that operate in the production sector can focus completely on the production of the goods.

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 2017

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

Transparency - Deference to our environment – Human first - Innovation

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 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 2017 our main goal has been the reduction of overtime at our main supplier Parvati Fashion. To reach this goal we discussed a lot of options to overcome the status quo in which we require the of excessive overtime for the production of our goods. We executed a root cause analysis in 2016 that helped us to isolate the main sources of overtime.

Some of these root sources could be handled appropriately, others could not. For instance did we have trouble preparing appropriate documents for our production, because we used different layouts for the same kind of worksheet. In the end of 2017 we established, and implemented a template for our design and technique worksheet where all information can always be found on the same place, but also made sure that the same technical terms/vocabularies are used. The reasons for this change have been long lasting reworks, and problems in the execution of our manufacturing procedures, which occurred due to miscommunication. Our first impression is that – now after the first season of implementation – we sorted out a bottleneck, because Parvati Fashion is waiting less often for technical work instructions than the years before, and in addition we internally also spare a lot of overtime hours by reducing the need for rework.

Another root cause has been the assessment of pre production samples. The assessment itself is done faster than the years before by our technical department. We got to know that it is not only the assessment of our pre production samples, but also the procurement of required materials for the sample production that leads to tailback in our lead time. In the moment Parvati is – as already described above – waiting less often for technical instructions to ensure the workflow in their production, but instead our technical department is waiting for samples to become assessed, to release a product line for production.

The root cause analysis clearly illustrated that the biggest impact on the occurrence of excessive overtime is engendered by waiting for subcontracted

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

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.

processes like printing, dying, and weaving. We became clear about the point that our approach to control these subcontracted processes for an improvement of the coordination in our supply chain is practically not realizable, as long as we won't order twice as much as before. As our purchase order depends on the demand of our customers, and we can not directly influence our customers, the required increase of our purchased quantities is practically not workable.

As a result of the above mentioned failed efforts we decided to adjust our change strategy. We prospectively focus on short term small wins instead of aspired big, but unsupported change. We came to the realization that we should manage our goal attainment by basing our goals on a long term planning, and dividing this long term goals in smaller sub-goals/milestones.

Thanks to the persistent work of Padmaja Pai (respectively the consulting company LINK ETC) – Mrs. Pai is also part of Parvatis Internal Complaint Committee – and at the will of the family Bajaj we changed a lot of habits, and could close issues mentioned in our last corrective action plan. One of the biggest changes is that Mrs. Yogita Bajaj the wife of Mr. Naresh Bajaj is now our direct contact person for topics related to FWF, and the improvement of working conditions at Parvati Fashion. Mrs. Bajaj is a reliable, and very conscientious person. Thanks to her appearance the communication between us, LINK ETC, and Parvati Fashion has improved a lot and takes place much more frequently.

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. This decision has already been revised in 2017, because we noted it leads to problems for Parvati Fashion if we split our purchase order for more than one manufacturer. Also we wanted to strengthen our partnership with Parvati Fashion. Out of this reason we became again a single sourcing company with a high leverage at, but also high dependence to our manufacturer Parvati Fashion. Our pricing strategy did not change in 2017 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.

If we want to shift parts of our production or are forced to source a new manufacturer our sourcing strategy implies investigations of past and existing audit reports, the consideration of applicable country studies of FWF and CCC, and the discussion about common and obvious obstacles. Moreover we initially clarify at our first contact, if a supplier is already working on improvements of their working conditions/working in compliance to different standards as there are GOTS, the basic requirements of the ILO convention, and applicable regional depending laws. Furthermore we introduce ourselves as FWF member and explain our focus on compliance to the FWF Code of Labour Practices, and our intention to work in deference to our environment. When we decide to cooperate with a new supplier we ask for other FWF member that are already sourcing from this particular production site, and we send the CoLP to the manufacturer to be discussed, and signed. If possible we provide our support/cooperation to work on CAP's/the improvement of working conditions at the potential new manufacturer. Otherwise we will start working out the root causes of findings from the audit reports, to work on improvements. If no other FWF member are sourcing from the potential new supplier, and the potential new supplier won't commit to work on prevention and avoidance of root causes for findings in their audit reports, we won't start a cooperation.

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 a new manufacturer if a required technical process for the production of elements from our portfolio can not be mastered by our existing supply chain, or the production site of the supply chain reaches its limits. As mentioned before, the sourcing department consists of two people. One Project Manager that develops a short list of potential supplier/manufacturer. The requirements to be listed on this short list are to provide sustainability in compliance to our

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

needs (the production of sustainable goods) and philosophy in the particular part of our supply chain. For instance is the requirement for the CMT⁴ level to be GOTS certified, and the commitment to the Code of Labour Practices of FWF. The Project Manager is the first person of MADNESS that is getting into touch with potential new manufacturers and discussing topics as the commitment to the Code of Labour Practices of FWF 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 the supplier/manufacturer what goals we can discuss, and fix to improve the social compliance in our supply chain, 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 process is the General Manager of MADNESS. He is visiting new manufacturers/supplier before MADNESS is doing business with them. Unless an audit has already taken place (or an audit report is shared by other FWF members) and can be used for our purpose, we discuss and clarify a possible date to let an FWF audit take place at this production site.

EDIT: It is not planned to shift the production site, respectively parts of our purchases to another/additional manufacturer.

⁴ CMT means Cut Make Trim. The fabric is cut and then bundled by style, size and color (that's CUT). The different sewing steps are performed in a workshop (that's MAKE). The finished products are trimmed, checked one last time, and packed for shipment (that's TRIM).

2.3. Production cycle

MADNESS is producing, and presenting two different collections per year – Spring/Summer and Autumn/Winter. Currently our winter collection pull in sales of around 40% of our total turnover and the other 60% 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 mail order purchases we established a lead time of three months. Referring to Part2 we established a lead time of 4 months. In addition 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.

Since 2016 the order of our Spring Summer collection is placed in the beginning of September. In 2016 we changed the date for the order placing in from mid of September to the beginning of September, to broaden the time for the production period. Enlarging the lead time is part of our prevention against occurring overtime.

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 a 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 stick to the focus on the cooperation with our main supplier Parvati Fashion. 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.

We have no plans to shift our production to another manufacturer, nor to shift parts of our purchase volume from Parvati Fashion to another manufacturer. If we should plan a shift (full, or partial), the reasons for a shift of our purchase orders would be, whether PF would not be able to produce particular desired product groups, or if PF is letting us know that they could not fulfil our purchase because of their capacities.

Criteria for becoming an evasion supplier of MADNESS are next to the necessary condition of being sustainable (or willed to commit to sustainability), 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.

To be more detailed on the necessary condition of sustainability for being considered as one of our evasion manufacturer: MADNESS is working with a philosophy that is built on four core values, transparency, deference to our environment, human first, innovation. 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 with the manufacturer.

As already mentioned before we have been a single sourcing company in 2015 and became one again in the end of 2016/the beginning of 2017. In between we sourced from a manufacturer called Temo Tekstil (AW2016 purchase), 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

In 2016 we decided to execute a root cause analysis, to get to know about the key driver of overtime in our supply chain, some of these key drivers could not be isolated until now (cf. section 1 "Goals and achievements"). The root cause analysis was executed because of different monitoring activities (FWF audit, complaint because of overtime in our supply chain), that made us aware of this issue. The outcome of this analysis has been that there are different reasons that cause overtime. We 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.

Our monitoring activities helped us to get to know about our biggest problem "excessive overtime". The impact of our monitoring activities and its outcome is clearly recognizable in a lot of our processes. For example do we push our key customers to place their order earlier, to help us broaden our lead time, to reduce the probability of emerging overtime work. But our sourcing decision itself is not directly impact by our monitoring activities. We agreed to a long lasting relationship with all our stakeholder, and out of this reason we work on an improvement of labour conditions alongside our supply chain instead of sourcing new production sites, that are probably higher committed to an implementation of the Code of Labour Practices or already more well positioned than our existing manufacturer.

Our monitoring activities would have a big impact on our sourcing decision if we will have a look for an evasion manufacturer. A manufacturer will only be considered as an evasion manufacturer, if the manufacturer is highly committed to sustainability, or an implementation of it.

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 62 employees (11 female and 51 male). Seven employees are employed as managerial staff (0 female and 7 male), 54 are production workers (11 female and 43 male). 62 employees are permanently employed (11 female and 51 male). Parvati engages in sampling, cutting, stitching, sewing, and finishing processes.

With the monitoring activities relating our main production unit, estimably 92% of our production is under our own monitoring. 8% are outsourced production steps to subcontracting factories of our main production unit Parvati Fashion. In 2017 our whole production took place in India. For 2018 our complete production is planned to be realized in India too.

Our whole Indian CMT takes place at one Parvati Fashion. We are visiting the factory in general 4-5 times a year. In 2017 we visited Parvati Fashion five times.

When visiting a factory, we pursue for different objectives. One is to get updated on the actual state of affairs regarding our production, another one

is to strengthen our network abroad, another one is to source new fabrics, and another one is to get an overview about the actual state of affairs regarding improvements and change projects that are related to the FWF CoLP, corrective action plans of the latest audit, or corrective actions because of complaints. Ina Berroth our women wear designer is also responsible for the implementation of the CoLP at our production sites. Ms. Berroth will get into touch with Padmaja Pai, our consultant for topics like labour condition improvement, and the designated contact person for labour conditions at Parvati Fashion. Ms. Berroth is trying 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 LINK ETC an external consultant company, and why we let audits take place periodically at our production site.

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 vis-à-vis 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 us to improve findings of the audit and mentioned issues on the CAP
- The 4th step is that the manufacturer has to send us pictures and/or documents which ensure the improvements/or they are verified vis-à-vis by Ina Berroth/our CEO Matthias Warnke
- 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 five times in 2017. 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 monthly keep updated until the mentioned issues are clarified and controlled. Mrs. Yogita Bajaj or Mrs. Padmaja Pai are sending us pictures, and documents to verify the work on required improvements. Ms. Berroth will verify core improvements vis-à-vis at the production site. The CAP (Corrective Action Plan) indicates which points are important to be worked on, and have to be clarified urgently. The CAP is an adequate medium as base for improvements and overview on pending, required improvements. The CAP can easily be shared to by the production site, our consultant, and us to get to know on which points we have delay and which ones are closed.

The selection process of production units where we realise audits, is a simple process. As a single sourcing company we focus on our main production unit, which is in charge of 92% 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.

3.2. Temo Tekstil / Turkey

We closed our cooperation with Temo Tekstil, after one trial purchase in 2016, to focus on our cooperation with Parvati Fashion.

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.

Complaints in 2017:

Thanks to our good work, the higher commitment of Parvati Fashion, and the intense work of Padmaja Pai, we could not determine any complaints of workers at Parvati Fashion in 2017.

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, and the purchase team; responsible persons 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 fashion shows (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.

Around 92% of our production is under monitoring. 92% is fulfilled at our main production unit Parvati Fashion. Due to our high leverage at Parvati Fashion, but also high dependence of Parvati Fashion, we are used to have a strong cooperation with them. Thanks to the increasing trust in our business relationship, and the prospering cooperation of the last years, we noted that Parvati Fashion is getting higher committed to our common perception of sustainability, and the importance of its implementation alongside our supply chain. In this case transparency is a key driver for improvement, and the adjustment to mutual goals.

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.) Indian Government
- 7.) MADNESS customer (B2B only)
- 8.) CCC
- 9.) Rightway Organisation for Social Welfare (India)
- 10.) Indian Trade Unions
- 11.) Chamber of Commerce

Unfortunately do not all of those relevant Stakeholders engage directly in our supply chain, but all of these listed stakeholder have at least an indirect impact on us and our activities, e.g. by publishing new laws.

Our distinctive customer focus is the key driver, and simultaneously base for tactical and strategic decisions at MADNESS. Another key driver for change is the engagement of NGOs like the FWF or GOTS. Caused by their engagement we are implementing standards, that we want to/have to achieve or already have achieved in our supply chain. This is why the stakeholders with the biggest impact on MADNESS are FWF, GOTS, and our customers. 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 FWF including its meetings (annual conference, and German stakeholder conference) here we inform ourselves by attending these meetings, or reading new publishing e.g. the country study for India of 2016. These are our main sources to get to know about the main concerns in the Indian textile production. Also we are keeping involved into the topic throughout other 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 5 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.