



NEUE
MASCHE

PROJEKT FUNDRAISING GMBH

SOCIAL REPORT
2018

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Our Philosophy

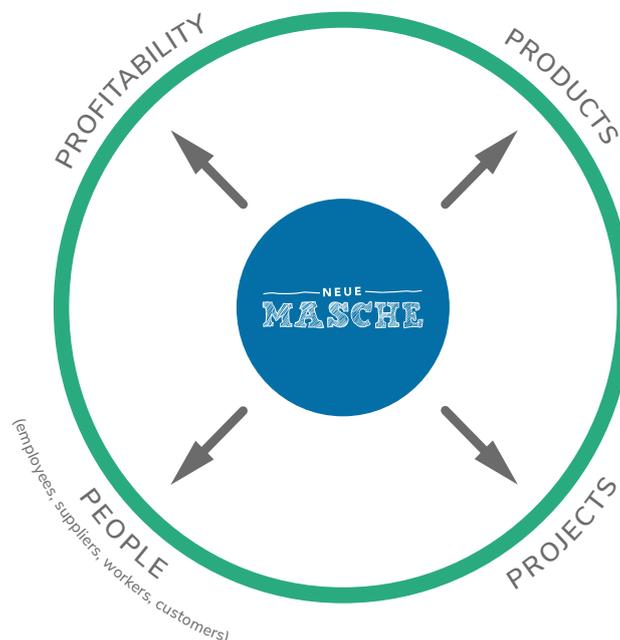
At Projekt Fundraising GmbH we offer fashionable and sustainably produced products as fundraisers for fundraising campaigns of non-profit projects and groups. The brand name of the campaigns and products is NEUE MASCHE.

In 2013, when NEUE MASCHE was founded, we were the first company to offer product-based fundraising in Germany. Correspondingly, over the last 5 years, we have been following the interesting and challenging task to introduce this new way of raising funds to our (prospective) customers. Building a new market requires one major ingredient: Trust. It is the most valuable asset we have.

In our opinion, trust is built through transparency, reliability, meeting and exceeding expectations and passion. We aim at a very open communication with our customers many of which have become fans of our products and services over time.

From the beginning we have instinctively followed a set of principles which has materialized into our value matrix in 2018.

Our goals are based on 4 equal-weight targets.



People

In everything we do, we try to treat the people we deal with in a fair and transparent way. This includes suppliers (workers), employees, customers. We want to build long-term supplier relationships and make them participate in the success of NEUE MASCHE. We aim to offer a workplace with exceptional learning and development opportunities for our employees and which encourages creativity. We want our customers to become fans of our approach to fundraising and our products. Therefore, we always strive to exceed expectations.

Profitability

We want to offer a fundraising model which is risk-free for our customers. In that way we have created a model which is dependent on the availability of working capital. We rely on the trust of our supporting bank which has provided this working capital over the last years. Therefore, the financial success of our company is a key ingredient for the future development of NEUE MASCHE. Only if we manage to build a sustainable business and keep a solid amount of equity within the company will we be able to receive the necessary financing which makes the model risk free for our customers.

Projects

NEUE MASCHE exists because of our customers' projects and dreams for which they run fundraising campaigns. We aim at offering the best possible fundraising model to make the smaller or bigger dreams behind the funded projects come true. We want to work towards this goal with the same amount of passion that our customers have vis-à-vis their projects.

Products

Our products are at the core of the fundraising model. These products are the actual fundraisers, i.e. they are the means of and catalysts for the groups in their effort to find supporters for their projects and dreams. We want to sell products, which are constantly exceeding expectations in terms of quality and sustainability because we believe that happy and enthusiastic customers are the best testimonials for our fundraising model.

As long as all 4 goals are in balance, we will be able to continue our exceptional journey in the years to come.

Summary: goals & achievements 2018

In 2018, NEUE MASCHE joined the Fair Wear Foundation (FWF). While we prepared for this membership already for several years, it took a bold step for such a young company to join such a reputable and demanding organization as FWF. Since start of our membership we are working towards increasing transparency and further improving the working conditions at our suppliers and on implementing the FWF Code of Labour Practice (CoLP), which is based on the UN Human Rights Charta and the core working principles of the International Labour Organisation.



We are committed to a transparent supply chain and only work with suppliers who fulfil our supplier selection criteria. We try to visit all of our own-brand suppliers at least once per year. In order to meet the FWF transparency requirements, we carefully evaluated each of our suppliers and discussed the prospective membership already several months in advance. The factories from which we directly source are very open towards FWF. We tried to encourage the importers that we work with to also become a member of FWF to join forces in our effort for a more transparent supply chain. Since FWF requires full transparency on production locations, some of the importers and wholesalers were understandably reluctant to become a FWF member.

One of the importers, we could not convince of joining the FWF or offering us the opportunity to directly work with the factory on improvements. Therefore, we started a responsible exit in 2017 already, gradually reducing order sizes until a complete fade-out in 2019/20.

In 2018, we were focused on the EU and Turkey as a production countries/regions. Due to the considerable political and financial stability risk in Turkey (exchange rate risk, high inflation), we will try to build a more international supplier base to mitigate country specific risks in 2019.

Overall, we are very happy with our first year of membership. FWF has helped us to focus on the most relevant factors in sustainable production and monitoring. Based on information we gained through our FWF membership we started to rebuild and restructure internal processes to further support sustainable sourcing. We have also had our first FWF factory audit in 2018 which has led to extremely fruitful discussions with the supplier.

We also managed to build a network of equally ambitious and far more experienced companies to discuss common topics and issues in specific production countries and share best practices with much bigger companies on how to run a sustainable purchasing.

“Trust is our most valuable asset. We build trust by offering transparently produced, high-quality sustainable products at a surprisingly reasonable price.”

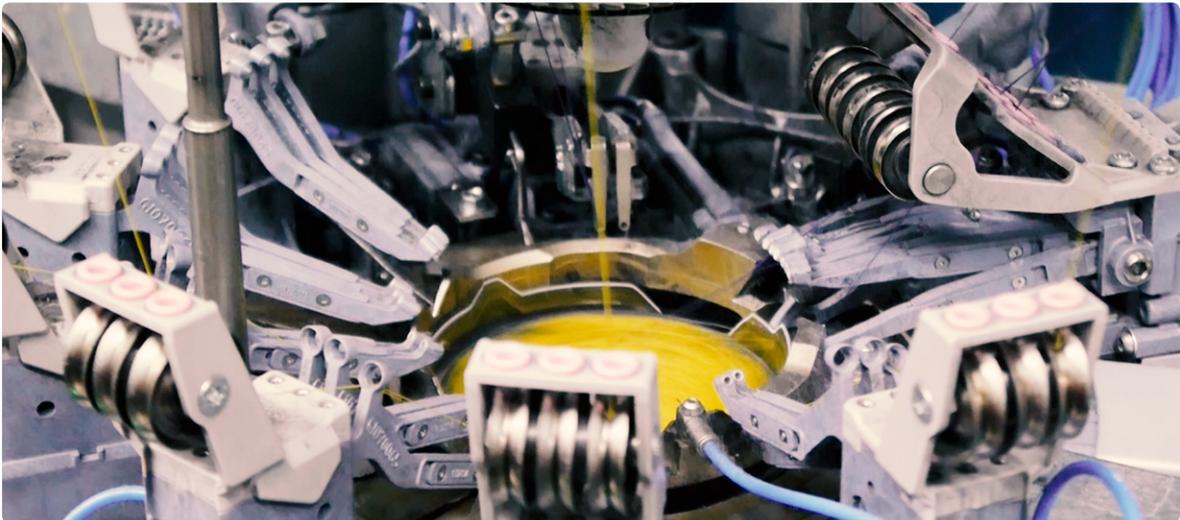


Dr. Benedikt Link, Founder

A handwritten signature in blue ink, which appears to be 'Benedikt Link', written in a cursive style.

1 Sourcing strategy

1.1 Sourcing strategy & pricing



Situation

We have adapted our sourcing strategy in the preparation of becoming a member of Fair Wear Foundation in 2017 and 2018. Founded only five years ago, NEUE MASCHE relied on the knowledge and experience of experts in sock production and quality at the start. We found an importing agent who had the relevant certifications (e.g. BSCI) and a very high quality to supply the first pairs of socks. We build a trustful business relation over the last year which lasts until today.

With the substantial growth over the last years, it has become clear however, that we have to become experts in sock production as well and know our supply chain better than we previously did with the intermediary. We tried to convince our main agent to become a member of FWF as well, but after one year of negotiations, he decided that he did not want to join because he assumed that the membership would be too costly given the large number of his suppliers. This was a turning-point in our sourcing strategy as we knew that we were only able to meet the Fair Wear criteria on transparency and to have a lasting impact on the working conditions in the factories if we knew our supply chain inside out – without intermediary. Since our agent did not want to hand over the necessary contact information of the factories as he perceived this as his key competitive advantage, we took the decision to build our own supplier base. 2 years down the road, we are very happy to have taken this decision.

In 2018, we had suppliers in Turkey, Slovakia and Germany. We have also placed a test order with a Chinese supplier. Due to the political and economic turmoil in Turkey, it has become clear that we need to extend our supplier base to at least one more country outside the EU to avoid the risk of a single supplier dependency.

Goal

It is our core goal to establish and keep a stable supplier base founded on sustainability, trust, transparency and reliability. As a small company, the costs of bringing a new supplier into the game are substantial, it is therefore in our own interest to work with the same suppliers for a long time. Also, we believe that long term improvements are only possible if both sides – the buyer and the seller – show that they value the partnership and are willing to work together for a long time.

Premises

While we are still relatively new to the garment production industry, we are constantly trying to understand the mechanisms and issues better and to identify key success factors for a good partnership. Our business model allows for and requires the following premises:

- Due to the nature of our business, roughly all of our products are NOS products (NOS = never out of stock, within the season and many of them also between seasons). Overall, our products are rarely changed in style. We only have 2 different collections (spring/summer and fall/winter) and even between these collections more than 50% of the products remain the same. This allows us to have a relatively stable production planning process and supplier management which allows for long term planning.
- We have a relatively small number of suppliers and always try to balance the risk of being dependent on a single producer and production country with the increased complexity of managing several suppliers with the same product. We only start supplier relations and test orders if we have significant evidence for a prospective and long-lasting relationship.
- Our supplier due diligence is based on quality, reliability, sustainability and price.
- We have long term planning cycles to avoid overtime and allow to adequately allocate production.
- We keep orders stable once indicated or placed – forecasts are mostly only slightly adapted when turned into orders and placed orders are almost never changed. Our business model is favourable in that sense: We can sell products during several successive seasons and delay the introduction of new products although we might still have them in the warehouse to destock other products. In case a product is not sold completely during one season it will be sold off in the next season.
- Due to the small percentage of production capacity needed from suppliers, it's relatively easy for suppliers to provide this capacity. On the other hand, it is in our own interest to be perceived as valuable partner despite the small volumes.
- All departments (design, procurement, product marketing, production planning) who might influence production time are supervised by one person to avoid e.g. delays in product design.
- Due to the high share of NOS products not much sampling is necessary and time pressure on suppliers is usually low. Given our small share of capacity at each supplier, we are not able to build time pressure anyways.
- We discuss the feasibility of our payment terms with each factory to ensure which allow factory to reduce risk and have adequate liquidity to pay workers in time.

- Our own warehouse is used as a buffer for changes in demand so we do not need to change orders or cancel them.
- Although this might sound a bit naïve, we perceive ourselves as price takers rather than price makers. Our negotiation power does not lie in huge volumes but rather in the prospect of a mutually beneficial long-term partnership.

1.2 Organisation of the sourcing department

NEUE MASCHE is a small company of approximately 15 FTE (FTE = full time equivalent employees). In 2018, there was no dedicated sourcing department. All sourcing decisions, production planning and negotiations were conducted by the managing director. In 2019, NEUE MASCHE introduces departments into its organizational structure. The corresponding department will be the department “Sourcing and Product” for which the current Corporate Social Responsibility (CSR) representative will take over the responsibility.

In 2018 we have collaborated with 2 agents. All of our agents get an introduction to FWF and they need to support our FWF membership and make sure that the suppliers sign the code of labour practice. In certain countries such as China, it is impossible for us to control working conditions and supplier quality on the regular basis due to the long distance. We therefore use agents in these countries to help us to select suppliers with high social standards and conduct production site visits for us regularly (e.g. weekly/bi-weekly).

1.3 Production cycle

Due to the nature of the business, there is a very high share of NOS products. This allows for very stable production cycles. The production planning is always 6 months ahead of expected delivery and production volumes in the factories are still so small that we have not encountered any problems regarding production allocation in the factories.

There are only two different product assortments per year (spring/summer & fall/winter)

In 2018 we asked our suppliers for feedback on our production planning system to make sure that we were not putting pressure on them without noticing and in order to get ideas on how to improve our partnership. We are very pleased that we received very positive feedback from suppliers regarding our production planning and the collaboration over all.

1.4 Supplier relations



NEUE MASCHE aims at long-term and sustainable supplier relationships. Based on the FWF requirements and recommendations, NEUE MASCHE has introduced a very structured and rigorous approach to new supplier selection.

This supplier selection approach includes country and product specific questions as well as personal impressions.

Our selection criteria for new production locations are based on the following elements:

- Quality of the products and price
- CSR track record (at least BSCI membership/audit or similar social audit)
- Responsiveness, transparency and quality of communication
- Commitment of supplier/factory management to FWF Code of Labour Practice
- Personal impression at factory visit with focus on Health and Safety issues
- Production location choice

We do not source from high risk countries such as for example Bangladesh, Pakistan or Myanmar. In 2018, one new supplier has been selected to enter the test order phase after passing the supplier selection due diligence. Also NEUE MASCHE is in touch with one sock producer who is also member of FWF for a potential sourcing cooperation in the future.

In 2018, the order size at one agent was significantly reduced because he was not willing to become a member of FWF and would not share supplier information with NEUE

MASCHE because of the fear in a loss of competitive advantage. The order fade-out was clearly communicated already in 2017 when it became clear that the agent did not want to join FWF. We came to a mutual agreement to successively reduce order size until a complete exit in 2019/20.

1.5 Integration monitoring activities and sourcing decisions

We believe that our monitoring is effective despite the low leverage we have in the production locations. We feel that our suppliers appreciate the personal relationship and the fact that we are more focused on quality rather than prices.

We have a stable supplier base at the moment and hope to continue with the same suppliers for many years to come.

We started to create a structured approach for assessing supplier performance. The aim of this approach is to evaluate the production location performance including its social compliance to get to an integrated decision making processes. This rating system shall be applied once a year to assess our existing supplier base. The rating of each supplier is an important basis to make production decisions.

2 Coherent system for monitoring and remediation

Our monitoring and remediation system is currently built on 4 pillars:

1. Factory visits: In our opinion, this is one of the most important tools to monitor actual progress in a factory and build a trustworthy relationship.
2. Factory audits and follow up on corrective action plans: We have audited our main supplier in 2018 with the help of a local FWF audit team and already intensively worked on the corrective action plan
3. Complaints handling: We have not received any complaints from workers so far.
4. Training and information: Workers need to be informed about their rights and management needs to be informed about our expectations. In addition, trainings can help to improve our own, management's and worker's knowledge of potential issues.

We will continue to develop this monitoring system based on its effectiveness and our experiences as we go along.

2.1 Turkey - sock production



We currently work with one sock factory in Turkey. The cooperation started in 2017. It is currently our most important factory. We have a close collaboration with this supplier and its management based on trust. Our aim is to build a long-term business relationship with this factory.

In 2018, the FWF supplier questionnaire and the worker information were filled out. We received a filled in and signed copy of the questionnaire and the worker information sheet was posted in the factory.

The Managing Director (MD) and the CSR representative visited the factory in 2018 (MD already 2017). During the factory visit we introduced FWF and the Code of Labour Practice (CoLP) to the factory management. Furthermore, we informed the supplier about the FWF audit. During the shop floor visit we completed our health and safety checklist for supplier visits.



The factory audit took place in July 2018. We received the audit report with the corrective action plan by the end of 2018. The follow-up on the corrective action plan started and will be continued in 2019, There were no complaints in this factory in 2018. The supplier participated in the Turkey Supplier Seminar 2018 of FWF. The seminar gave an update on FWF Turkey activities and country specific risks.

2.2 Turkey – trunks production

We are collaborating with this factory since 2017. This is the only factory where we source sewn products (the trunks).

We received a filled in and signed copy of the questionnaire and the worker information sheet was posted in the factory. The factory was visited in 2018 the second time by our Managing Director and the CSR representative. During the factory visit we introduced FWF and the CoLP to the factory management. During the shop floor visit we completed our health and safety checklist for supplier visits. In 2018, there were no complaints in this factory.

2.3 Slovakia – sock production



Slovakia is classified as low risk county by FWF. We collaborate with this factory since 2016. We have a really close collaboration with this supplier based on trust. There is regular exchange between our Managing Director and the factory management. Factory managements also visited our location several times.

In the beginning of the year 2018 we sent the FWF supplier questionnaire and the worker information sheet to the supplier. We received a filled in and signed copy of the questionnaire and the worker information sheet was posted in the factory.

We visited the factory in 2018 for the second time. The visit was carried out by the Managing Director and two employees.

During the factory visit we introduced FWF and the CoLP to the factory management and further discussed country specific risks. During the shop floor visit we completed our health and safety checklist for supplier visits.

There is another FWF member sourcing from this supplier. We exchanged our experiences with this FWF member. In 2018, there were no complaints in this factory.

2.4 China – sock production



We started collaborating with the first factory when starting our business in 2013. We were sourcing via a German importer (agent). With the start of our FWF membership in the beginning of the year 2018 we sent the FWF supplier questionnaire and the worker information sheet to the supplier. We received a filled in and signed copy of the questionnaire and the worker information sheet was posted in the factory.

We can only source at this factory through an agent in Germany. This agent currently does not allow us to send FWF auditors to the location and get in direct contact with the factory owner because of a fear of losing a competitive advantage. Due to this sourcing structure we cannot ensure that CoLP can be implemented and controlled by us directly. After comprehensive discussions and decreasing the order quantity in 2018, it was mutually agreed that the business relationship with the importer will be ended in 2019/20. There were also no complaints in this factory in 2018.

Due to the political and economic situation in Turkey, we need to extend our supplier base internationally to mitigate country specific risks. Therefore, we ran a test order with a second Chinese supplier who has very high quality products and a very good sustainability record, e.g. Global Organic Textile Standard (GOTS), Business Social Compliance Initiative (BSCI).

Since our company is too small to have Chinese staff and since we are aware that buying in China requires a close cooperation with the factory, we rely on a Chinese agent to visits the factory several times per months.

After assessing the supplier according to our supplier selection process we started with a first small test order in the end of 2018 to be delivered in 2019. Supplier assessment will continue in 2019 to make a final decision whether we will send repeat/bulk orders. Our management will also visit the supplier in March 2019.

2.5 Germany – hipster bag production



Our hipster bag is produced in a workshop where people with mental illnesses get the chance to work. The workshop is located in Germany, a low risk country in terms of FWF classification. We collaborate with this workshop since 2017. It is located close to our own location. Due to the local proximity the workshop is visited often by staff members. For the presentation of FWF the factory was visited in 2018 by a member of company management and the CSR representative.

During the factory visit we introduced FWF and the CoLP to the factory management. During the shop floor visit we completed our health and safety checklist for supplier visits. There were no complaints in this factory in 2018.

2.6 External production

We sent the supplier questionnaire for external suppliers to all of our external suppliers. We received completed and signed versions from all of them. A large part of the external production is coming from Europe.

As with our own production, we only chose trust suppliers and brands with high ethical standards. One of our external suppliers is also a Fair Wear Member. We are also in touch with another FWF member to start a sourcing cooperation.

3 Complaints handling

Our CSR manager is responsible for complaints handling. In 2018, no complaints were raised in any of our factories.

4 Training and capacity building

4.1 Activities to inform staff members



Since our FWF membership started in 2018, we made sure that all staff members are informed about it before the start. Because of our business model we talk to many of our customers via phone. We often get questions on how we deal with issues like sustainable production, child labour and so on. It is therefore in our interest that the whole team (including customer service) is well informed on our CSR activities.

- To improve the awareness on sustainability topics, especially FWF, we have held 2 workshops in 2018 with new employees and will continue to do so in 2019. The workshop focused on our activities in sustainable production, the FWF membership and the FWF communication guidelines.
- In addition, we created guidelines for our customer service on how to communicate the FWF membership to our customers. These guidelines are included into an on-boarding folder which every new employee gets.
- The managing director is involved in all topics/decisions related to FWF membership because he is still very closely involved in the production and procurement decision.
- Our CSR representative participated in many FWF webinars, the German FWF member and stakeholder meeting as well as a seminar for new FWF members.
- Furthermore, the FWF communication guide was shared with marketing and there is a close collaboration on this topic.
- In addition, we have a responsibility section on our website, where we inform about different topics: <http://www.neumasche.com/verantwortungsvolle-herstellung/>

4.2 Activities to inform agents

We currently only work with 2 agents. They were informed in a personal meeting with a presentation and open discussion. They also received the FWF factory guide (online training tool for factory managers).

We always emphasize on the criteria needed to become a supplier, so the agent can make a reasonable preselection when talking about potential new suppliers.

4.3 Activities to inform manufacturers and workers

Our suppliers have filled out and signed the supplier questionnaire. The worker information sheet was also put up in all factories (with the exception of a workshop in Germany, where some of the information on the sheet is irrelevant due to the nature of the workshop and therefore cannot be applied). In addition to the information sheet, the workers have also been informed through the management and workers association of their factories. During our on-site visits, we also presented FWF to the factory management and agents (where applicable) and discussed pending issues openly.

We also invited our Turkish suppliers to the Turkey Supplier Seminar 2018 of FWF. Our Turkish sock supplier participated in the seminar. The seminar gave an update on FWF Turkey activities.

We also offered each factory management information about the factory guide, the FWF online training tool for factory managers.

5 Information management

We are regularly in touch with our suppliers. We hold phone calls at least every three months and are in contact via e-mail every 1-2 weeks. We try to visit every supplier once per year. In 2018 we have visited our suppliers in Turkey, Slovakia and Germany.

Because we are a relatively small company and we only have few suppliers, it is still relatively easy to monitor and have personal meetings with all suppliers. We do not have a "long tail" in our supplier list. All of our suppliers have confirmed not to work with subcontractors for our products.

We document all relevant communication in our file storage system to be able to better track progress and have a solid documentation of the agreements made.

6 Transparency & communication

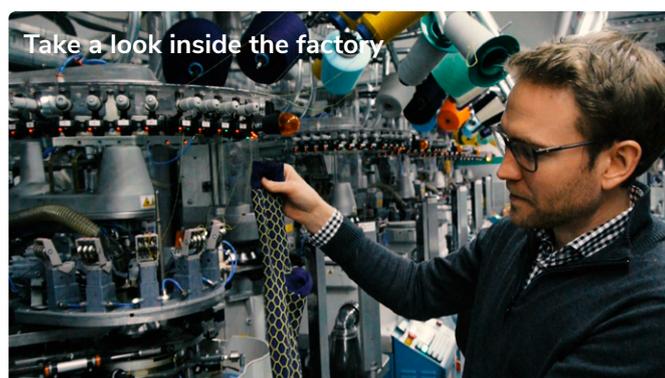
In our first year of membership we followed the communication guidelines of FWF and published the logo on our website. We also describe FWF and our membership on the website in detail: <https://www.neumasche.com/verantwortungsvolle-herstellung/fair-wear-foundation/>

Since we hold phone calls with all of our customers, we are able to also communicate our membership there, similar as with e-mail request. Customers often ask about the production conditions of our products. This is a very good way to communicate our membership actively to many of our customers.

We also describe the FWF membership on the first page of the product catalogue.



In 2018, we have taken a camera to our main producer in Turkey to give our customers and stakeholders a direct impression from within the factory.



We were also invited to a social responsibility day at a school in Baden-Württemberg in 2018 where we presented the NEUE MASCHE approach to sustainable production and were also able to talk about the FWF membership

As a summary of the ongoing efforts and changes in the area of CSR, we have compiled and published this report in March 2019.

7 Stakeholder Engagement

In order to get a fair overview on the workers situation and social issues in the respective production countries, we have consulted the available resources of NGOs and other organizations. We have used the Clean Clothing Campaign (CCC) Country Profile Slovakia to get overview on garment industry in country and working conditions (Slovakia).

We also used many FWF resources such as the FWF country studies, as e.g. the “FWF Country Plan Turkey”, the FWF guidance on risks related to Turkish garment factories employing Syrian refugees and the FWF document regarding child labour in Turkey.

We also held several calls with other member brands to better understand country specific risks and share best practices.

8 Corporate Social Responsibility

Apart from the supplier relationships described above, we try to leave a positive footprint also in other areas of CSR. Many of our products are organic and we strive at increasing this percentage further over the next years. All kids socks use GOTS cotton only, as well as the trunks and T-shirts. Our spice-set and tea assortments are also purely organic.

We use Forest Stewardship Council (FSC) paper for the packaging of all our boxes making sure that its resources are coming from sustainable forestry and we send all of our parcels emission free using the compensation program GoGreen of DHL.

We also have introduced a new product to offer our customers a chance to make a difference: They can buy a box of socks for a social cause and we double the amount socks donated. Over 5 different social organizations have benefited from these donations and roughly 10.000 pairs of socks were donated.



Social Box

Startdate FWF-Membership

01.01.2018

Reporting period (financial year)

01.01.2018 - 31.12.2018

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