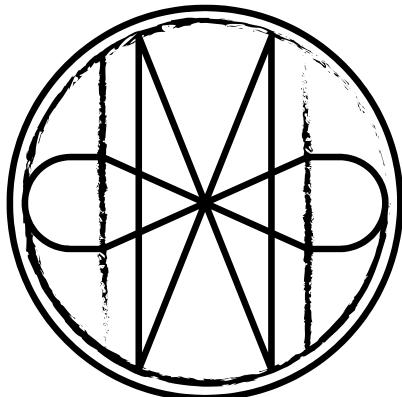


**FAIR
WEAR**

MADNESS The Nature Textile Company

social report 2020

Reporting period (Financial year: 01/2020 – 12/2020)



MADNESS
THE NATURE TEXTILE COMPANY

WWW.MADNESS-ONLINE.COM

FAIR WEAR MEMBER SINCE [08/2014]

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MADNESS social report

Our company values are action pointing for our internal and external behaviour. Our team, our production partner, 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.

"The importance of fair working conditions in textile supply chains has increased significantly again in 2020. For Madness, the year was filled with many ups and downs, and we realized that the long-term relationship with our production partner in India is extremely important for both sides. Together, we were able to overcome the many challenges. Thus, we ensure that our products can be sold and worn with a clear conscience, which is a particular advantage in addition to the improvement along our supply chain and can be verified by the higher transparency along our supply chain."

M. Warnke, General Manager -

Organisational chart

Our sustainability goal is to establish a completely 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 material for our products only, and we decided to manufacture our goods under the strict compliance to the Global Organic Textile Standard (GOTS). As we still believe that sustainability is a holistic, and action orientating philosophy, we also want to produce our eco-friendly goods under fair conditions for our partner alongside the supply chain of our products. Since 2014 we have also been a member of the Fair Wear Foundation (FWF) – an independent, non-profit organization that works together with its member companies and production facilities to improve working conditions in the textile industry.

We believe that there is room for improvement in all our actions. 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. As a medium-sized family business, it is particularly important for us to take responsibility for our own employees and the workers who manufacture our products.

Summary: 2020 goals & achievements

The year 2020 was very different as we had thought at the beginning. We therefore had to react flexibly and restructure the year. Completely new challenges have therefore emerged for us. Nevertheless, looking back, we had a successful and instructive year, which is also reflected in our goals. The entire Social Report provides a greater insight into our activities with regard to the implementation of the FWF Code of Labour Practices (CoLP) in our production.

GOALS	DATE	ACHIEVEMENTS	
Fair Wear Foundation positively evaluated the management of MADNESS in regards to social standards.	2020	In 2020 the Fair Wear Foundation again rated the management practice of MADNESS for the implementation of fair working conditions in the textile supply chain as "good". It confirmed, thus progress for the commitment.	✓
All subcontractors and suppliers in the deeper supply chain are known to Madness and have signed the FWF Code of Labour Practices (CoLP).	ongoing	In 2020, we have on-boarded another production partner in Turkey. This partner has already signed the FWF CoLP prior to order placement. In addition, we have continued to focus on the topic of transparency in our supply chain. In close cooperation with our production partner, we have already taken great steps and have achieved the disclosure of further suppliers. They have all signed the FWF CoLP.	○
Our production partner shows improvements in the implementation of the corrective action plan. These are systematically implemented with the help of a consulting agency.	2020	In 2020, we conducted a digital document check in collaboration with external auditors to verify progress. In addition, we conducted on-site Health & Safety Checks in all subcontractor factories. Since then, we have been working together to implement the resulting measures.	✓
Excessive overtime at our production partner is reduced.	ongoing	In 2020, we also tried to fight the causes of overtime at the root, for example, by preparing appropriate documents for our production partner. In cooperation with the management of the factory and the consultant agency in India, we want to adapt the processes in the long term. This is a step-by-step process.	○
We pay a Living Wage for our production partners.	ongoing	In 2020, we discussed the first specific steps of our road to payment of a living wage for all workers at our production site. As first steps we identified the labour minute costs for the production of our styles.	○
Our production partner takes part in trainings on the FWF Code of Labour Practices and complaints procedure.	2020	Our consulting agency from India conducted internal training courses at our production partner. These addressed, for example, various topics related to health and safety during the Covid-19 pandemic, firefighting and employee complaints.	✓
A systematic complaints system is established and any complaints that arise are resolved in cooperation with our production partner.	2020	We have continuously raised awareness of the complaint system. The complaints that reached us in 2019 have already been resolved.	✓
The employees who visit the production site discuss the open points with the management on site.	2020	In February, the CEO visited the factory in India. Due to the Covid-19 pandemic, no further site visits to the factory took place.	X
We publish information about our production partners on the website.	2020	Information about our production partners and the Social Report are published on our Website.	✓
Managing Due Diligence of Covid-19 Crisis	ongoing	In close cooperation with our production partner, we were able to identify the risks of the pandemic and implemented due diligence obligations quickly. For example, we did not cancel any orders.	○

Sourcing strategy

SOURCING STRATEGY & PRICING

Stability and trust are the basis for the cooperation with our production partner. This basis opens up many opportunities to grow together and develop new collections, while at the same time working on social and environmental standards.

(1) Sourcing strategy

For many years Madness has relied on the single sourcing strategy. Our long-time production partner, Parvati Fashion in India, manufactures our own products and collections in close collaboration. Nevertheless, in 2020 we decided to further divide our capacities and select another production partner for collaboration. When selecting the new production partner, we had high standards in terms of sustainability. For the selection of new production partners, it is important for us to conduct investigations of existing audit reports in advance and to consider country studies by FWF and other organizations. Due diligence arrangements and risk analysis also play an important role. For this purpose, we exchange information with other FWF members and stakeholders, such as trade unions in the respective production countries.

In addition to this first step of sustainability monitoring, during our initial contact we first clarify whether a supplier is already working to improve its working conditions or to comply with various standards such as GOTS, the basic requirements of the regionally applicable dependent laws and the acceptance of FWF's Social Code of Conduct, and furthermore the supplier's agreement to work on improving working conditions in its production unit(s). In addition to the above explanations, we introduce ourselves as a FWF member and explain our focus on compliance with the FWF Code of Labor Practices and our intention to work with consideration for our environment. If we decide to work with a new supplier, we ask about other FWF members already sourcing from that particular manufacturing facility, and we send the CoLP to the manufacturer for discussion and signature. If a potential partner refuses to comply or makes no effort to do so, we will not cooperate.

The decision will be made jointly by our general manager, the design team, and the CSR manager. The other essential condition is that the supplier must be able to produce our goods in terms of available production capacity and in terms of technical production capabilities to meet our needs. We have learned that the discussion about production capacity is a very intense one, because it is still common in global trade that no party in a supply chain is transparent about its own costs. However, we want to ensure that future suppliers understand, and moreover accept and support, our path to holistic sustainability. If both essential conditions are met by the potential new production partner, our onboarding process includes a test order and we will evaluate the onboarding process and product quality.

(2) Pricing Strategy

We are a cost-plus pricing company and still accept the prices that occur due to changing raw material prices and currency fluctuations. We trust our partner to calculate prices that are compatible with our whole supply chain. Price negotiations will only occur for particular lots if high order quantities are enabling lower production costs. What really changed in pricing discussions is that we supplemented the focus on how marketable a product is by how supporting the price for the implementation of social compliance is.

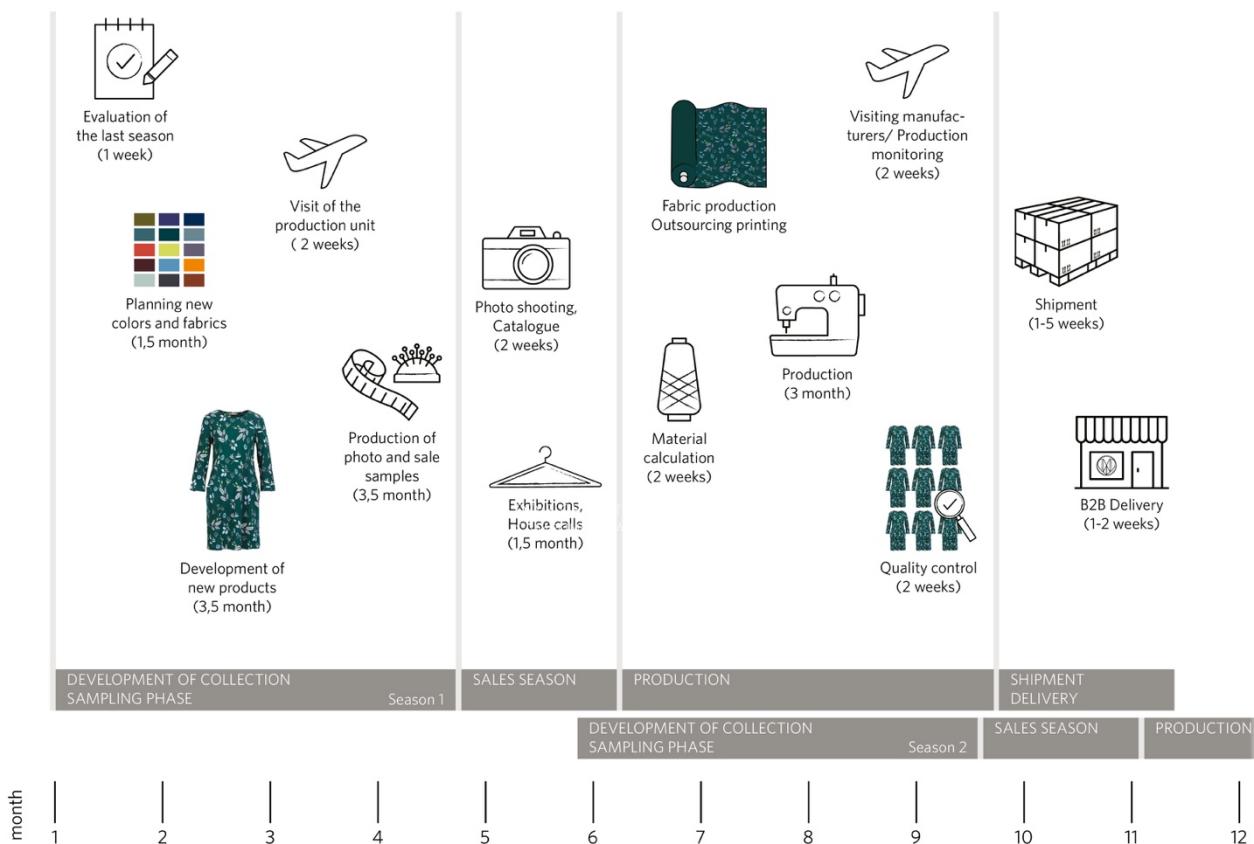
PRODUCTION CYCLE

Behind our products are complex processes that require close coordination with our production partners in India and Turkey. In contrast to other fast fashion companies, MADNESS focuses on only two collections a year - Spring/Summer and Autumn/Winter.

Currently, our winter and summer collection both pull in sales of around 50% of our total turnover. In general, we have a pre-order period in which our B2B clients order. MADNESS customers can be separated into two parts, from which every part makes estimably 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, but the last customers that order. For mail order purchases we established a lead time of three months. Referring to Part2 we established a lead time of 4-5 months after order placement (it is important to know, that the fabrics, colour variations, and different styles are already fixed latest eight to nine months before the shipment). In addition, we let 10-15% more goods be produced than ordered. The costs for the overproduction are covered by MADNESS, to support Parvati Fashion and increase their procurement quantities.

For several years now, the order of our Spring Summer collection is placed at 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 at the beginning of March. We changed the date for placing the order of the Autumn Winter 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 figure is showing a typical production cycle at MADNESS:



FACTORY RELATIONS

We are known for long lasting business relationships. For this reason, we have been focusing on cooperation with our main production partner Parvati Fashion since 2010. Trust and close contact are part of our relationship. We are always looking for as much transparency, in all processes of our supply chain, as possible. The long-term cooperation with our production partner means stability, planning security and trust for both parties. Since production processes and working hours can be better planned, we can also avoid overtime. Looking to the future together is also an incentive to strive for a good and humane working atmosphere in the factory and a careful approach to the environment.

In 2020, we have taken a new production partner on board. When selecting the new production partner, it was important to us that it had a similar philosophy to MADNESS. Accordingly, the production partner in Turkey is able to produce our garments in an environmentally friendly and humane way. Ecological standards, such as GOTS certification, play an important role, as well as the social requirements of the Fair Wear Foundation. Another member of the Fair Wear Foundation also produces there. Together, we are now working on the constant further development of social standards and are also exchanging ideas, particularly on the topic of Living Wages. An important criterion for our new production partner was also that he demonstrates the ability to produce smaller quantities of a wide variety of products and is also able to manufacture the goods we order in a timely manner. We usually have lead times of three to four months after an order is placed. Four months for our small customers when the order is placed and three months for the production of our mail order customers.

INTEGRATION OF MONITORING ACTIVITIES AND SOURCING DECISIONS

Audits give us an insight into where our production partner stand in their development and are the basis for implementing the FWF CoLP and our sustainability strategy.

Internal and external audits by FWF and GOTS help us to uncover grievances among our production partners and prevent violations of the FWF Code of Labor Practices and our business philosophy. We support our partners in the implementation of the measures, including through external consulting and training for management and workers.

We continue to strengthen our monitoring system by engaging relevant stakeholders. Constantly we, the whole team of MADNESS are working to support our two production partners through different communication tools, corrective actions etc. and to develop the social standards step by step. In doing so, we and our manufacturing partners in the supply chain are in a continuous improvement process. Again, we want to understand how the world of work is changing, how that affects our business and how we can contribute.

Coherent system for monitoring and remediation

We carry out audits of our production partner approximately every three years. Whether we plan to conduct one depends, among other things, on how the company performed in previous audits.

Fair Wear Foundation carries out the **independent audits**. As part of their audits, the auditors talk to local managers, analyse relevant operating documents, inspect the entire production site and conduct

confidential discussions with employees and their representatives. At least one member of the audit team always speaks the local language. We usually announce the audit visits in advance. This ensures that all persons with appropriate responsibilities are present. The costs for all audits at the site are borne by MADNESS. Any deviations from the FWF CoLP identified in the audit are discussed with management and discussed with the responsible managers and employee representatives during the audit. Together they draw up a binding **correction action plan (CAP)**. This plan lists all necessary improvements and defines measures within a certain time frame. We support our production partner in analysing the reasons for the deviations, make suggestions for improvement and also regularly review our own purchasing practices. The aim of the cooperation is to implement improvements step by step and to implement them in the long term. Regular **follow-up visits** enable us to gain an insight into the corrective actions and improvements that have been implemented.

INDIA: PARVATI FASHION



The Indian textile industry is one of the leading in the world. Over the years, the textile industry there has developed into an important export sector and thus also contributes to local economic growth. In the course of our long-standing cooperation with our sole production partner Parvati Fashion, we have jointly developed know-how in the production of sustainable clothing.

Parvati Fashion is a Noida based organic garment manufacturer specialized in producing women wear and engages in sampling, cutting, stitching, sewing, and finishing processes. With the monitoring activities relating our main production unit, estimably 100% of our production is under our own monitoring. Our leverage at Parvati Fashion is around 85%. Since 2019 a new external consulting agency (Achievers) supports Parvati Fashion in implementing the improvement measures. They are located close to the production site and can support the management and the CSR officer with their knowledge in the various projects and arising tasks at any time. The external consultant is SA8000 certified and therefore has a broad knowledge of social standards. The last FWF audit for Parvati Fashion took place in 2017. Since then, the management of the company has been constantly working on improvement measures. A follow-up audit was planned for 2020. Therefore, due to the Covid-19 pandemic that emerged in 2020 and the strict travel restrictions, we decided to try a new format and conduct a virtual audit together with the company Sumations GmbH and their certified auditors. This involved especially reviewing necessary documents (e.g. the proof of payment to workers) and conducting interviews with the factory's management. In a joint final meeting, the action plan was presented and discussed. The focus was particularly on the challenges arising from the pandemic and how to deal with employees during the lockdown phase in April 2020. The virtual audit is not a full audit according to FWF standards. Nevertheless, it has allowed us to partially verify the progress of our production partner since the audit in 2017 and to identify further gaps in preparation for a possible on-site audit in 2021. In order to familiarize the employees with the Health & Safety topics that have changed due to the pandemic, regular training sessions were conducted by our consulting office in India. A country-specific risk, which is also still a major challenge for our production partner, concerns excessive working hours. In cooperation with our production partner, we try to adjust and optimize the internal processes as well as Parvati Fashion in order to reduce overtime. Transparency and trust is especially important for this. Since 2019, Parvati Fashion has been providing us with a monthly

Social Report 2020

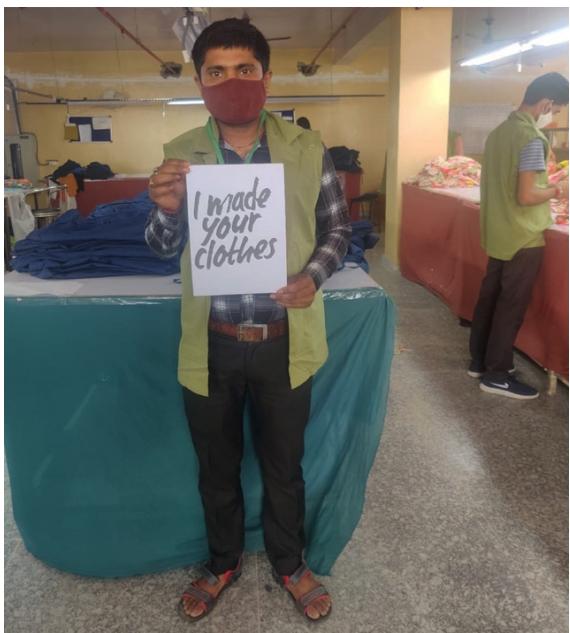
overview of salary payment inclusive the overtime pay to ensure that all overtime is paid to employees. Another important step forward in 2019 was the disclosure of Parvati Fashion's subcontractors who help the factory to finish our products. The external advisory office carried out its own audits and health & safety checks at the facilities of the subcontractors. This enabled us to get a first impression of the factories and we are in constant contact with Parvati Fashion to ensure that social standards are also maintained there. There were also significant changes to the finding that there was no independent union or workers committee which is run by workers without management involvement. For this purpose, trainings took place in 2020. Documentation and reports were kept. The workers were informed in advance for the election. As we have not yet been able to guarantee Living Wages in the factory, we are working together with Parvati Fashion on the first calculations and have been discussing the topic intensively since 2020. We want to make further progress in 2021.



Pinki Devi & Usha Devi from Parvati Fashion



Praveen Kumar works at Parvati Fashion



Laxmi Thakur works at Parvati Fashion



Production at Parvati Fashion

TURKEY: ORIMPEX ORGANIC TEXTILES



In Turkey, the garment industry is the second largest industry and is responsible for a large share of total exports, with countries from the EU being the largest buyers. Although the industry is familiar with international workplace standards as well as audits by international buyers, improvements are still needed in many aspects of working conditions.

Since 2020, we have now additionally started sampling together with a production partner in Turkey in order to be able to further expand our capacities in 2021 and at the same time initiate new developments. We carefully selected the production partner Orimpex Organic Textiles in a multi-stage process. One criterion, for example, was that production had already been audited by the Fair Wear Foundation (FWF) and was GOTS-certified. Both criteria were met by the production. Here we mainly produce garments made out of organic cotton or Tencel™. With another FWF member, we are working on the continuous implementation of social standards.

The production facility is located in Izmir, in the region that is especially known for growing organic cotton. Cutting, sewing, quality control and packaging processes are carried out by the team on site.

The last FWF audit took place in 2018. Together with another FWF member, we discussed the outstanding corrective actions. In particular, it was noted that excessive overtime is a major challenge in peak seasons. Since then, Orimpex has made a big step in reducing excessive overtime. We are planning to conduct another FWF audit in 2021 - depending on how the pandemic in Turkey develops. We are looking forward to further cooperation with Orimpex.



Özge from packaging department

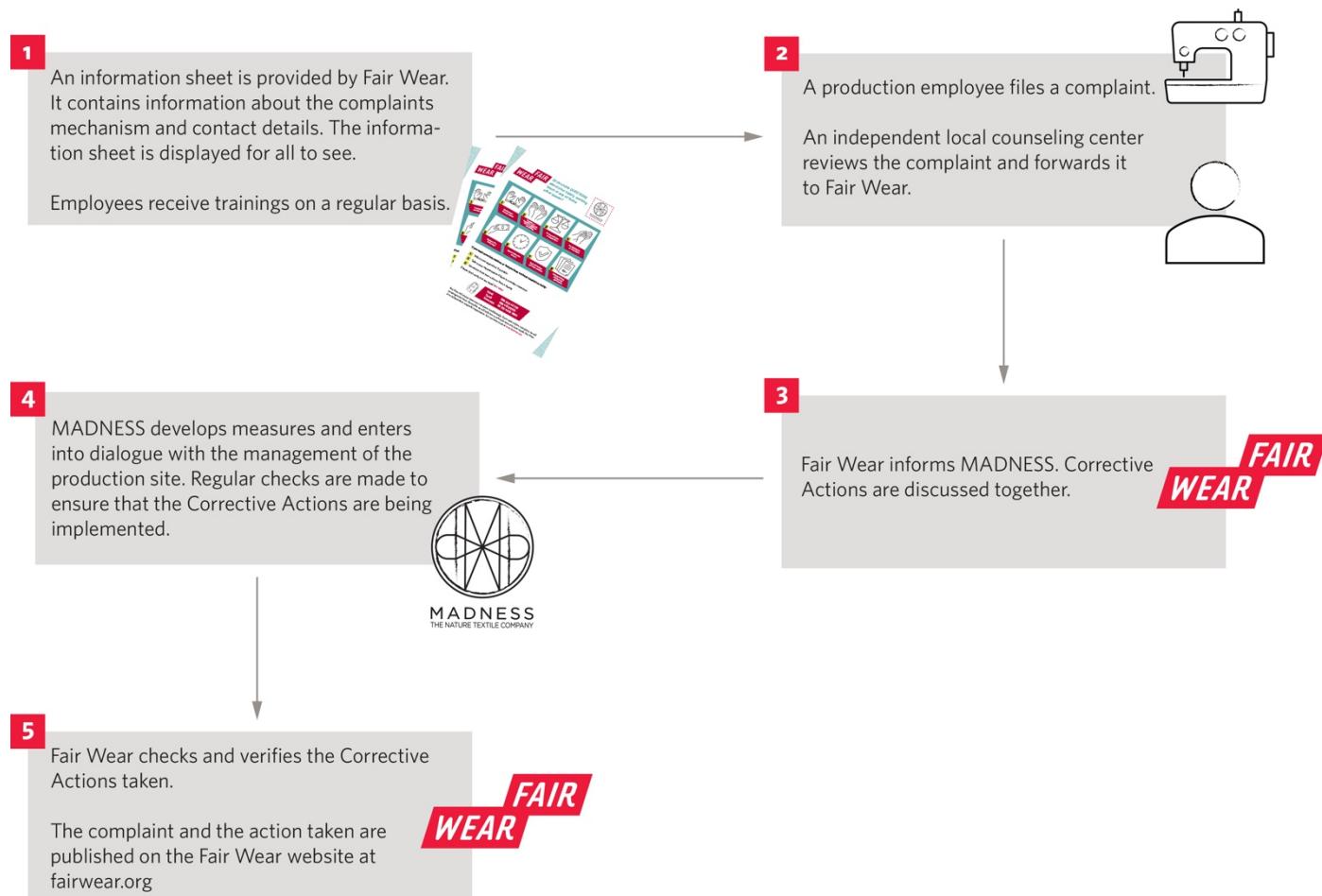


Yunus Emre from production department

Complaints handling

The Fair Wear complaint system is another way of implementing the Code of Labour Practices locally, in the production facility.

The complaint system gives employees the opportunity to contact the independent Fair Wear Foundation in the event of difficulties. FWF provides an information sheet with the employment rights and contact details for complaints in the respective national language. The production sites must display this in a clearly visible position. The procedure is repeatedly discussed in training sessions and during visits. Fair Wear publishes all complaints and measures to resolve them on its website. In 2020 we received no complaints from employees. The flow of the complaint process is shown in a simplified version in the following figure:



Training and capacity building

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. The general management as well as the employees from design and technology are directly participating on the CSR proceedings at MADNESS. All others are informed regularly.

ACTIVITIES TO INFORM MANUFACTURERS AND WORKERS

In the context of topic-specific trainings and education, we constantly promote the implementation of social standards and compliance with the Fair Wear Foundation Code of Labour Practices. Training courses strengthen the awareness of all employees for social and environmental standards and give them the opportunity to develop independently.

Our production partner in India also regularly participates in FWF's training programs, the so-called Workplace Education Programs (WEP). The FWF trainers and lecturers speak the local language and are familiar with the cultural customs in the respective countries. In 2020, we drew on the experience and knowledge of our local consulting agency to conduct various training sessions at the production site. This time, the focus was on the health and safety issues in regards to the Covid-19 pandemic. However, other topics from the areas of occupational safety, firefighting and employee complaints were also part of the trainings. But the regular meetings of the Worker Welfare Committee (WWC) also continued at three-month intervals. This gives employees the opportunity to organize themselves independently and stand up for their rights.



The employees of Parvati Fashion receive training on Covid-19 restrictions and Health & Safety provisions.

Information management

The management, design staff and the CSR team are in constant communication with our sole production partner Parvati Fashion. Since 2019 we have worked together to complete the list of the suppliers in our deeper supply chain. As a result, all our subcontractors for the dyeing, knitting, weaving and printing processes were able to sign the FWF CoLP.

All subcontractors have signed the Fair Wear Foundation Code of Labour Practices. Subcontractors are, according to the definition of the FWF, also directly involved in the production of the product (cut, make, trim). The suppliers in the deeper supply chain are, for example, dye works and material suppliers, the so-called wet processes. These are therefore also called Tier 2 suppliers. All those suppliers are known because they are mentioned on the GOTS scope certificate of Parvati Fashion, which is evaluated as soon as we receive the GOTS scope certificate, which must be replaced every year. We always have the latest scope certificate of our production partner, because otherwise our certifier would not replace our old scope certificate. In 2020, our external consultant was able to visit all our subcontractors for dyeing, knitting, printing and weaving in India on site and conduct a Health & Safety Check. Since then, we have been working together with Parvati Fashion on the implementation of the measures. For us, it was important to create further transparency in our entire supply chain. Due to the combination of the systematic verification of FWF, GOTS and our strong business relationships, it is very important for us to constantly monitor our supply chain.

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 FWF CoLP. The most important finding from

Due to the emerging Covid 19 pandemic in 2020, our main supplier in India could not be audited. Therefore, we have not been able to maintain our monitoring threshold of 100%. Due to this, we have had a digital check done. However, as this is not a full audit according to FWF requirements, we are planning a verification audit with FWF on site in 2021, as soon as the situation allows this in India. Due to our high leverage of 85% in Parvati Fashion, but also high dependence on Parvati Fashion, we are used to have strong cooperation with them. Thanks to the increasing trust in our business relationship and the prosperous collaboration over the last few years, we have seen that Parvati Fashion is increasingly committed to our shared view of sustainability and the importance of its implementation along our supply chain. In this case, transparency is a key driver for improvement and alignment with common goals.

Stakeholder engagement

We have numerous relevant stakeholders who have different expectations of MADNESS. They include employees, consumers, customers (B2B), production partners and their employees, non-governmental organizations, politics, media and institutions.

We are in continuous dialogue with our stakeholders. In particular, we are in close contact with our partners such as the FWF, the member companies and GOTS in order to implement social and environmental standards. The following stakeholders are relevant for us: external consulting (Achievers), the Indian government and Trade Unions. We are convinced that we can only change textile supply chains in cooperation with all stakeholders. 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. 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. As part of the cooperation with FWF, our production partner Parvati Fashion had the pleasure to welcome a delegation of the Fair Wear Foundation from Indonesia in 2020. The delegation consists of representatives of the Gender Network Platform (GNP) in Indonesia – an association of trade unions, NGOs and government representatives. The aim of the delegation was to get an insight from a sewing factory in India with exemplary handling of the issue 'Gender Based Violence'. The visit left a positive impression on all participants. The joint exchange between the employees and the delegation was important for both sides.



The delegation of Fair Wear Foundation Indonesia visiting the Indian factory of Parvati Fashion in January 2020..

Corporate Social Responsibility

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.