

MADNESS
THE NATURE TEXTILE COMPANY

www.madness-online.com

**FAIR
WEAR**

SOCIAL REPORT 2022

Reporting period (Financial year: 01/2022 - 12/2022)

FAIR WEAR MEMBER SINCE [08/2014]



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MADNESS SOCIAL REPORT

“You may never know what results come of your action, but if you do nothing there will be no result.”

-Mahatma Gandhi

When I was riding my motorbike through different Asian countries when I was young, admiring the foreign different cultures, their different art and beauty of the nature, brainstorming with my friends over there, the idea was born to bring natural, beautiful garments to Germany. Madness was established in 1994 and from the beginning on it was important to us to act sustainably. Already then, when it wasn't popular, we traded with sustainable garments like hemp, Ahimza silk, linen and organic wool.

Certainly, we underestimated many aspects which have an impact on human beings and nature. Everything we do has an impact, but we can do our utmost to minimize its negative impact and if reflecting critically, our knowledge of what this means grows year by year.

For us, sustainability means creating our own value creation in a responsible manner. In other words, to understand extremely complex relationships and to coordinate everything in an optimised manner. To this end, we pay particular attention to four key elements.

- Fair working conditions throughout our value chain.
- Achieving the greatest possible ecological goals in the supply chain and our products.
- Economic compatibility of our work.
- Transparency in our practice.

We are a member of Fair Wear since 2014. Fair working conditions are clearly defined by the Fair Wear's Code of Labor Practices (CoLP) in the eight social principles to which we are clearly committed. Improving labor standards throughout our value chain is part of our corporate social responsibility, and we only work with companies that treat their employees with the respect they deserve. Based on this self-perception, we also see our direct business partners as partners who share the same values. We set a high value on compliance with the eight working standards not only for our direct partners who carry out the final confection, but also for our entire value chain.

As we still believe that sustainability is a holistic, and action orientating philosophy, apart from fair conditions for our partner alongside the supply chain, we want to produce our goods eco-friendly. To achieve this we decided to always use natural, and eco-friendly raw material for our products only, and we decided since 2012 to manufacture our goods under the strict compliance of the Global Organic Textile Standard (GOTS).

Our company values are seminal for our internal and external behaviour. Our team, our production partners, our service providers, and our customers are all treated the same way. Appreciatively, 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.

“2022, was again an extreme difficult year for everyone. Worldwide economic crises, inflation, increasing purchasing prices, dropping customer demand and at the same time keeping fair working conditions alive. This could be only achieved by clear commitment, cooperation, and partnership in long-term relationship with our production partners and here especially with our partner in India.”

-M. Warnke, General Manager



SUMMARY: 2022 GOALS & ACHIEVEMENTS

The new normal seems to be that we needed to learn to always expect the unthinkable, ready to react flexible and to do necessary adjustments. However, looking back, we managed everything successfully, which is reflected in our goal achievement as well. The entire Social Report provides a greater insight into our activities regarding the implementation of the FW Code of Labour Practices (CoLP) in our production.

GOALS	ACHIEVEMENTS 2022	
Fair Wear positively evaluated MADNESS positively in the Brand Performance Check.	In 2022 Madness leadership status was held and performance increased further.	✓
All subcontractors and material suppliers in from our Indian supplier are known to Madness, have signed FW Code of Labour Practices (CoLP) and their performance is checked.	In 2022 there was no change in supply chain, all are committed to FW CoLP and performance was checked.	✓
Our production partner shows improvements in the implementation of the corrective action plan. These are systematically implemented with the help of a consulting agency.	In 2022 our main production partner in India demonstrated adherence to the CoLP in difficult times also and continued maintaining the FW principles.	✓
Excessive overtime at our production partner is reduced.	In 2022, overtime worked by our main production partner was monitored on a monthly base.	✓
We pay a Living Wage for our production partners.	Despite all difficulties in 2022, together with both production partners we took efforts on the way to a living wage by participating in survey, training, and using fair price app.	✓
Our production partner takes part in trainings on the FW Code of Labour Practices and complaints procedure.	Refresher training were conducted in the factory of our main production partner.	✓
A systematic complaints system is established and any complaints that arise are resolved in cooperation with our production partner.	Awareness about the complaint system was risen but no complaint was made in 2022.	✓
The employees who visit the production site discuss the open points with the management on site.	Due to still difficult travel situation and expensive travel costs in 2022, no further on-site visits by Madness management took place in India but continuous support of the factory by local external specialist is financed by Madness. Follow up visit by external specialist was conducted in the factory in Turkey. Daily virtual meetings were held between Madness management and factory management.	✓
We publish information about our production partners on the website.	Information about our production partners and the Social Report are published on our Website.	✓

MADNESS CSR ORGANISATION

Madness is a family business, and it is particularly important for us to take responsibility for our own employees and the workers who manufacture our products. 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.



For us as a family business sustainability is the top priority of the owner personally. Matthias Warnke who is the founder and managing director is also the head of sustainability. Matthias Warnke sets the sustainability goals and deals with the business partners on top level regarding all related questions and challenges. Ina Berroth, who creates a part of all the beautiful Madness designs and bringing them to life in our collections, supports our partners in the implementation by optimising the collection setup and timelines.



Above: Madness Headquarter
Left: Matthias Warnke, Chairman and CSR Management Representative
Below: Ina Berroth, Designer and CSR Representative

Externally we are supported by consultants in India and Germany. Our consultant in India supports our Indian partner Parvati in all kinds of trainings and conducts audits in the companies of our value chain. Our German consultant supports us in the follow up of corrective actions in India and Turkey and supports us fulfilling the necessary bureaucratic requirements.



SOURCING STRATEGY & PRICING



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

In the spirit of cooperation as basis for true partnership Madness had single sourcing strategy until 2020. After many years working with Parvati Fashion in India only, we followed Fair Wear Brand Performance Check recommendation and started an additional cooperation with the new production partner in Turkey in 2021, which we have selected in 2020 under the high requirements about sustainable standards. In the end, we chose a company that produces for Fair Wear member brands and which is also already audited and GOTS certified.

Our actual sourcing strategy is not to source further production partners and to strengthen the existing partnership further. Especially in the current difficult economic times we see real cooperation and partnership essential for the wellbeing of humans and nature. Accordingly, we did not source any new production partner in 2022.

Since it is a requirement to us to have a written sourcing strategy in place when sourcing new production partners, we have developed such. The search for potential partner includes investigations of existing audit reports, country risk assessment inclusive consideration of country studies by FW and other organizations. Due diligence arrangements and risk analysis play an important role. For this purpose, we exchange information with other FW members and stakeholders, such as trade unions in the respective production countries as well.

When a company is considered a potential partner, we introduce ourselves as a FW member and explain our focus on compliance with the FW Code of Labor Practices (CoLP) and our intention to work with consideration for our environment. We also clarify whether a potential partner is already to improve its working conditions, if necessary. 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 budding partner, our onboarding process includes a test order and we will evaluate the onboarding process and product quality.

If all these pre-conditions are positive, we send Fair Wear Code of Labour Practice and Contractual Agreement to the budding partner for discussion and signature. If a budding partner would refuse to sign or to comply or makes no effort to do so, we will not bond.

We accept the prices that occur due to changing raw material prices, production costs as well as inflation. We trust our partner to calculate prices which enable sound conditions for the people working in our supply chain. To support our partners, we are pre-financing the production costs. Apart from that in 2022 as well we did not pass on any claim or penalty, we have received from any of our commercial customers.

For being able to base prices in future on measurable figures worked on ways to increase transparency by taking efforts to use Fair Wear Fair Price App.

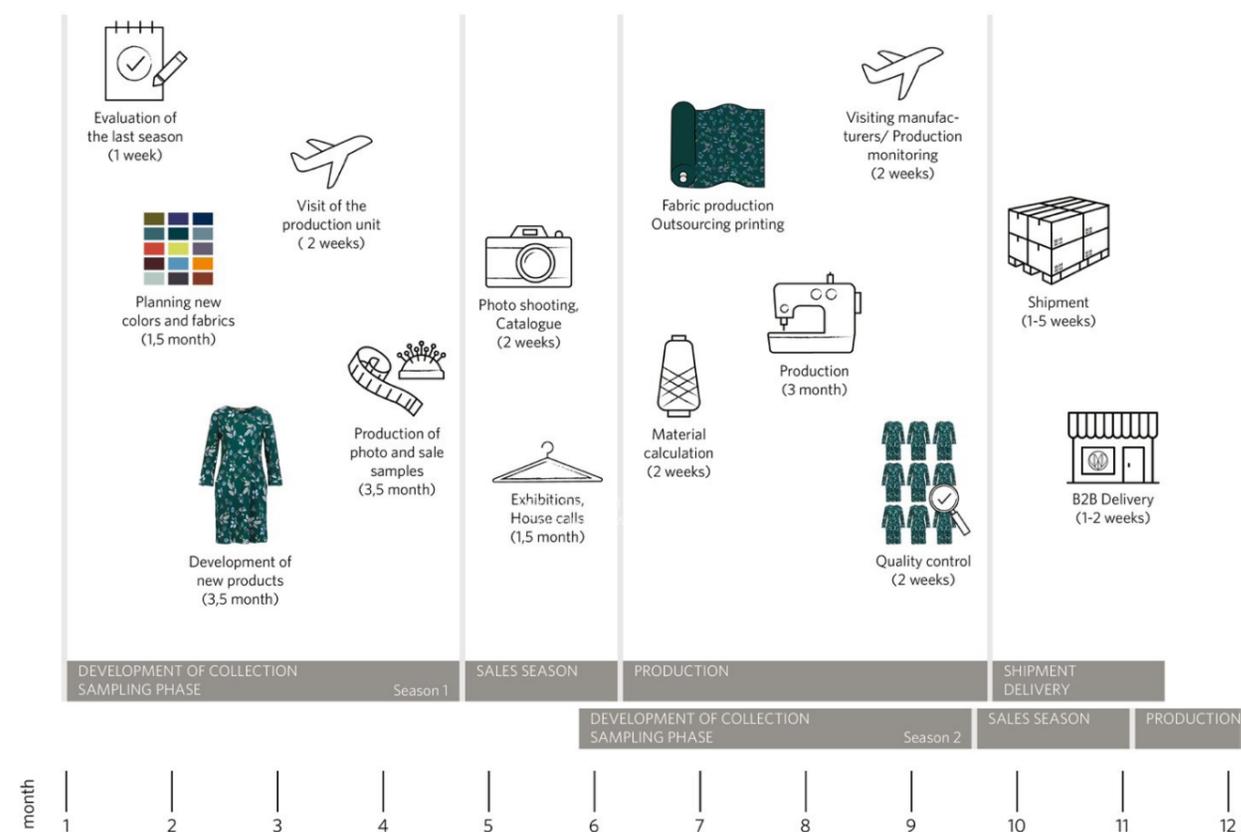
PRODUCTION CYCLE

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.

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 accept 5-10% less or more production and exceptionally additionally due to quality defects, calculated on the individual articles, 10-20 less production.

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 allow our partners more time to produce our goods.

The following figure shows a typical MADNESS production cycle:



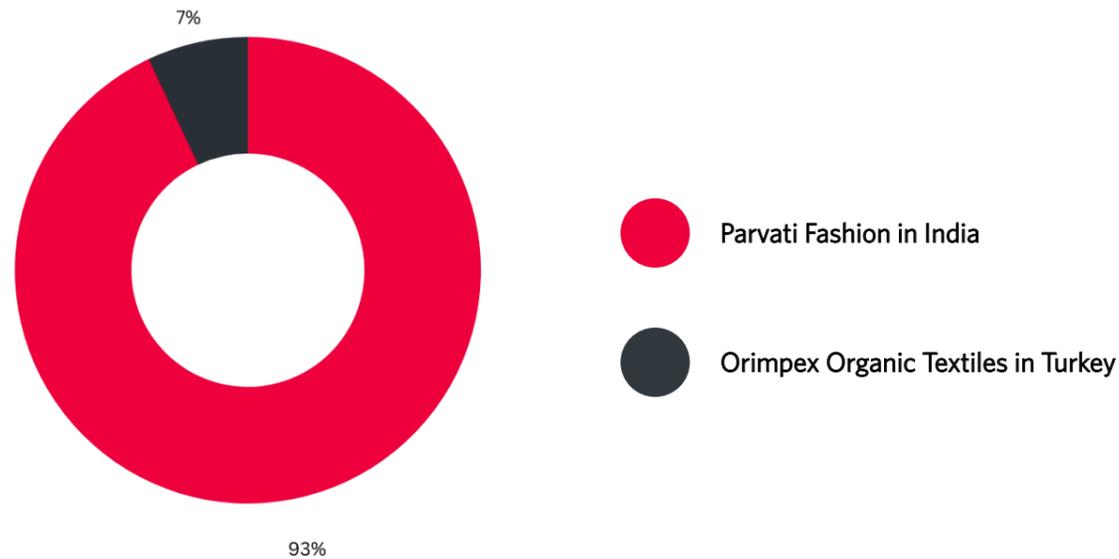
FACTORY RELATIONS

We are known for long lasting business relationships. Trust and close contact are part of our relationship. We always look for as much transparency as possible, in all processes of our supply chain. Long-term cooperation with our production partner means stability, planning security and trust for both parties, if orders have necessary volume. 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.

For this reason, we have been focusing on cooperation with our main production partner Parvati Fashion since 2010. In 2022 Parvati produced 67.269 pcs. of our garments - that means 93% from our total order. Also, in 2022 Madness production made 74% of the total turnover of Parvati. Since our order volume dropped 15%, our leverage at Parvati production dropped 16%.

Orimpex Organic Textiles, the company with which we started production in Turkey in 2021 produces for us only for the summer season. In 2022 Orimpex produced 4.740 pcs of our garments - that means 7% from our total order. Madness holds 1% from the total turnover of Orimpex.

In 2022 again, in both companies we did not cancel any order.



INTEGRATION MONITORING ACTIVITIES AND SOURCING DECISIONS

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

Internal and external audits by FW and GOTS help us to uncover grievances among our production partners and prevent violations of the FW Code of Labour 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 work 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 changes, 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 carries out 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 or are shared with other member brands.. Any deviations from the FW 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 corrective 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 enjoys a rich heritage going back to the ancient period. Indian textiles with its outstanding art and fine quality were famous for centuries and finished goods successfully exported.

In the colonial period export of finished goods were forbidden. Export was restricted to raw materials which then were manufactured in British and European Industries. They made the profits and the people in India suffered.

Over the last 70 years India has again developed to an important textile nation. It is the largest producer of cotton and jute, second-largest producer of silk and second-largest exporter of textiles with a share of 5% in the global textile and apparel trade.

While in 2022 the overall economy in India was relatively strong and still growing, the textile and apparel industry was facing a crisis since consumers in Europe and US have cut their expenses on clothing.





Parvati Fashion is our production partner in India, based in Noida and specialized in production of organic women wear which we have jointly developed together a long-standing cooperation as our sole from 2010 - 2021. Parvati produce 93% of our cloths and we have a leverage of around 74%.

Since the orders of our customers declined 15% in a consequence our leverage at Parvati Fashion business declined 16% as well. Apart from that increasing costs by on a high level stagnating buying prices caused a difficult economic situation for Parvati and tried our best possible with pre-payments and trying to help Parvati to find new and additional customers

which we see as our responsibility as partners.

In 2019 we have engaged an external consulting agency (Achievers) who supports Parvati Fashion in kind of implementing and maintaining social standards. Achievers gives necessary advice to management and is engaged in workers training as well.

The last audit was conducted by FW in November 2021. This was the first audit in the new factory. The audit gave evidence that Parvati has reached a good status of implementation. It showed e.g. that Parvati has proper documentation like recruitment and termination policy, child labour remediation policy, election and training records, wage and working hour records among others; and have posted all necessary information. Trainings were conducted to sensitise workers on labour standards and legal information. Worker representatives have been elected and committees established. Meetings of all committees took place based on legal requirement and are properly documented. Apart from that, they have attempted to promote a woman supervisor after providing her adequate training.



Through the audit some findings were identified which need further improvement. Training on internal grievance system should be done to make workers aware of the committee members, its role, and functions. Overtime of piece rate workers must be recorded more exactly. Due to this inaccuracy review during the audit was difficult correctness of payment could not be made transparent. Excessive overtime was still a problem in Parvati Fashion.

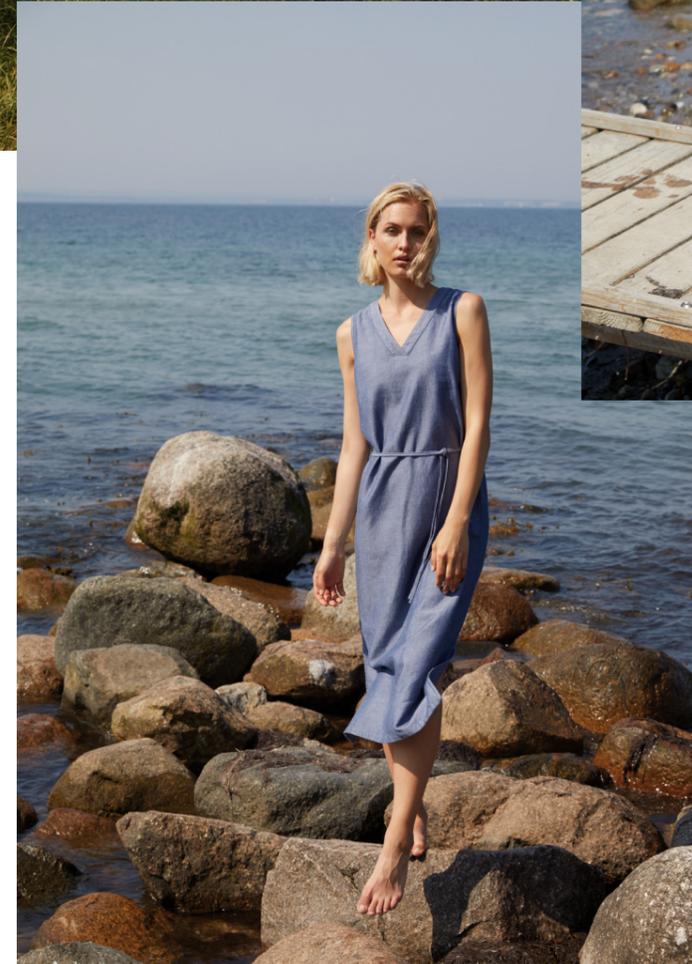
To improve these findings, we review of working-time and payments for all employees every month. If we find discrepancies, they are discussed and clarified. In

cooperation with our production partner, we also try to adjust and optimize the internal processes to support Parvati Fashion to reduce overtime. Transparency and trust are most important to achieve this.

We also work together with Parvati Fashion on the first calculations with the help of Fair Wear Price App. Therefore, Parvati participated in several Fair Wear Workshops and in in continuous communication with Fair Wear.

Parvati is not unionised but has established functioning works committee. Since workers in the company are aware of its purposes, no strikes or no instance of worker management conflict took place in the factory. Discrimination in employment regarding to gender or health status does not take place. "No child labour" is also an important policy of Parvati, which is shown everywhere.

Please also see <https://www.instagram.com/reel/Cjs1btEoO2O/?igshid=MDJmNzVkMjY%3D>.



Models from our current collection manufactured by Parvati Fashion

TURKEY: ORIMPEX ORGANIC TEXTILES



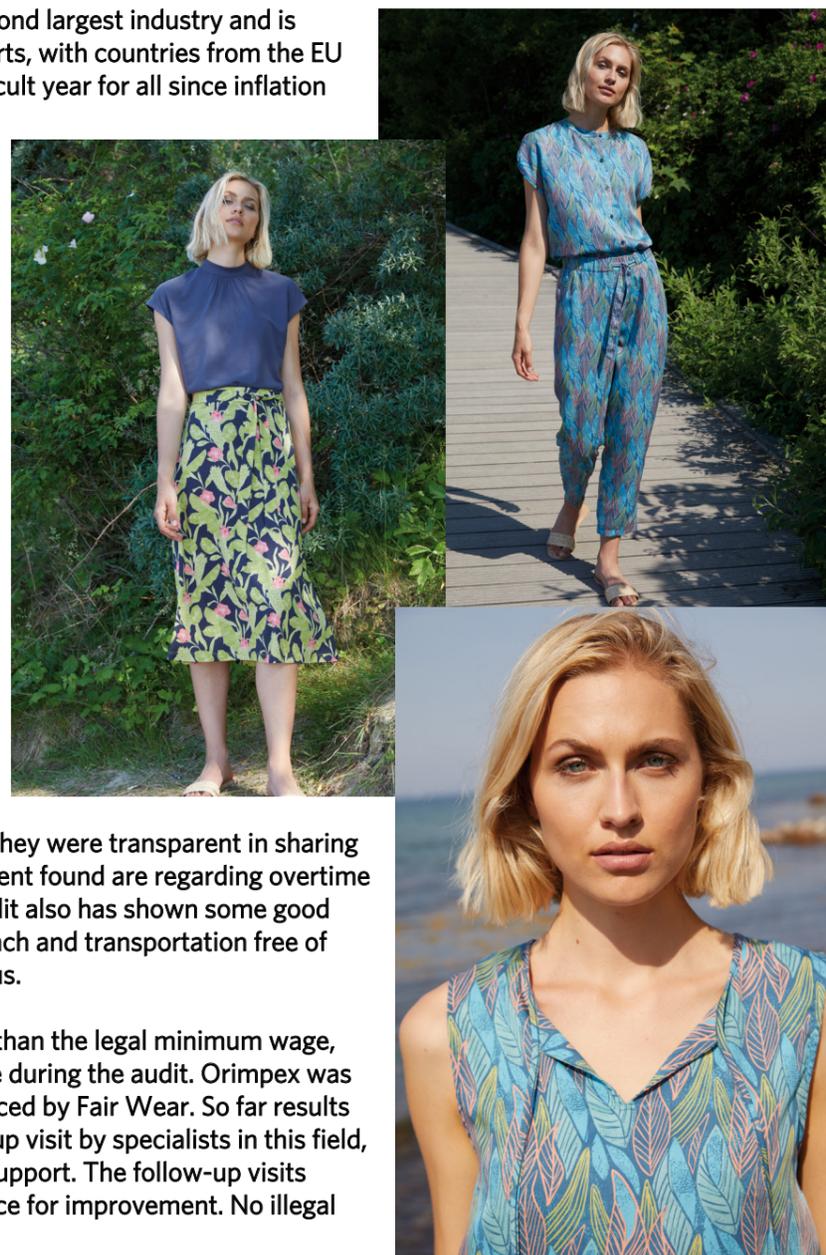
In Turkey, the garment industry is the second largest industry and is responsible for a large share of total exports, with countries from the EU being the largest buyers. 2022 was a difficult year for all since inflation rates increased tremendously.

In 2020, we have started sampling together with Orimpex our new partner in Turkey. The production facility is in Izmir, in the region that is especially known for growing organic cotton. In 2021 and 2022 our leverage at Orimpex was around 1%. With 1% leverage we do not have high impact. To increase the probability to improve conditions the follow up activities takes place in cooperation with the other Fair Wear member brands producing in Orimpex and which have higher leverage than us.

The last FW audit took place in Orimpex in December 2021. Since Fair Wear had several audits at the factory in the previous years, both management and workers have information about Fair Wear. The attitude of management seemed supportive during the audit, and they were transparent in sharing the documents. Main areas for improvement found are regarding overtime and occupational health & safety. The audit also has shown some good practices, such as the factory provides lunch and transportation free of charge for all workers and additional bonus.

Although, all employees get wages more than the legal minimum wage, wages were not considered as living wage during the audit. Orimpex was included in a Living Wage project announced by Fair Wear. So far results are not available. We organised a follow-up visit by specialists in this field, to see Orimpex progress and to provide support. The follow-up visits showed progress but also still further space for improvement. No illegal Syrian workers are employed in Orimpex.

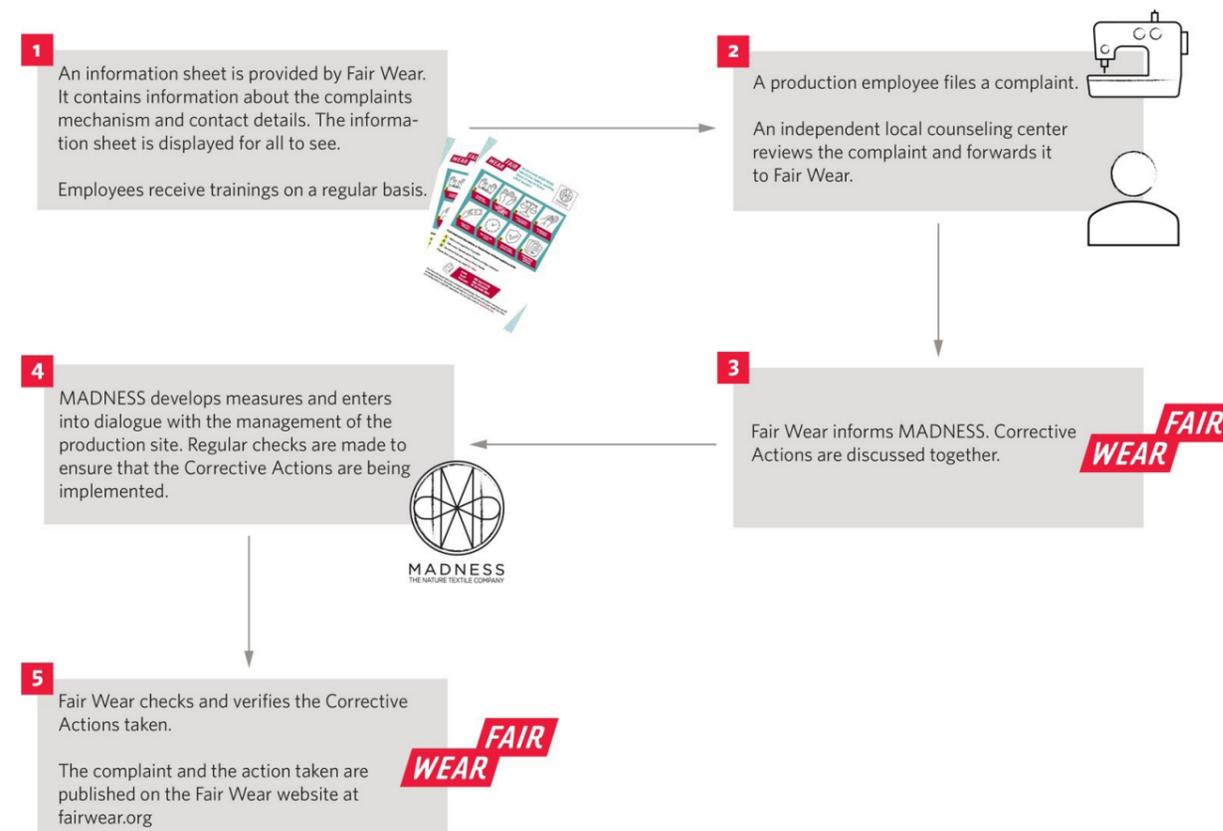
Further information about Orimpex sustainability status can be found in Orimpex Sustainability report under <https://orimpex.com.tr/wp-content/uploads/2022/02/Orimpex-Sustainability.pdf>.



Models from Madness current collection manufactured by Orimpex

COMPLAINTS HANDLING

The complaint system gives employees who work for our production partners the opportunity to contact the Fair Wear in case they have problems which they cannot solve internally. FW provides an information sheet in the respective national language with the 8 principles and contact details where the employees can raise complaints. 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 2022 we did not receive any complaint from employees working for our production partners. 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

Everyone in MADNESS is aware of our FW membership. We are proactively communicating progresses and regresses regarding social standards in our supply chain. Especially the responsible persons in purchasing, design and sales make sure they do everything possible to ensure fair labour conditions in our garment production. All reports as well as negative and positive feedback are shared and proactively discussed. The general manager and persons involved in CSR Management participate in Meetings with Fair Wear regularly. In 2022 we additionally had internal workshop about Fair Wear, the eight social principles and the complaint procedure. The Fair Wear Workers Info Sheet is posted on our notice board as well.

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 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.

In 2022, we continued to conduct different training sessions at the production site in India with our experienced local consulting agency. In the whole year, all the following relevant topics were trained regularly every three months to the workers: Awareness on Fair Wear Code of Labour Practice; Training on employee grievance handling mechanism; Awareness on local laws; Awareness on sexu-

al harassment of women at workplace; and Fire Fighting Training and Evacuation Drill. And of course, all other kind of health and safety trainings.

Moreover, the regular meetings of the Worker Committee, Employee Grievance Committee Meeting, Internal Complaint Committee and Health and Safety Committee also continued at three-month intervals.

INFORMATION MANAGEMENT

The management, design staff and the CSR team are in constant communication with our production partner Parvati Fashion. Communication with Orimpex where we only have 1% leverage is case related. Since 2019 we have worked on transparency of the suppliers in our deeper supply chain.

All subcontractors have signed the Fair Wear Code of Labour Practices. Subcontractors are, according to the definition of the Fair Wear, also directly involved in the production of the product. In our case cut-make-trim takes place inhouse only but our garments are partly piece-dyed, which is made by one company. This has been audited by our Indian consultant.

Suppliers in the deeper supply chain are, so called Tier 2 suppliers. All those suppliers are known because they are mentioned on the GOTS scope certificates of our supplier. We always have the latest scope certificate of our production partner, because otherwise our certifier would not replace our old scope certificate.

In 2022, our external Indian consultant visited all our subcontractors and suppliers for dyeing, knitting, printing and weaving in India on site and conducted simple audits which covered all 8 FW principles and environment. 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 FW, GOTS and our strong business relationships, it is very important for us to constantly monitor our supply chain.

TRANSPARENCY & COMMUNICATION

MADNESS communicates its FW membership on fashion shows (fairs), our catalogue, the own website furthermore, the FW logo is attached to the washing label and hangtag directly on the goods and in sales meetings. Furthermore we publish the social report on our website and if applicable the Brand Performance Check. Both our production partners are published.

STAKEHOLDER ENGAGEMENT

Madness has numerous relevant stakeholders who have different expectations. 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 our production partners, their management and workers, local community, FW, other FW member brands, our external consultants, the Indian government and Trade Unions and GOTS in order to implement social and environmental standards.

A good and relevant information source related to the topic of social justice/sustainability is FW including its meetings here we inform ourselves by attending these meetings, or reading new publishing e.g. the country study for India and Turkey. These are our main sources to get to know about the main concerns in the textile production in the concerned countries.

CORPORATE SOCIAL RESPONSIBILITY

Our philosophy determines very strictly the topic environmental 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. A healthy nature is the world's greatest asset, if it is destroyed, everyone suffers, regardless of whether employed or resident, and everyone loses their livelihood in the long term.

Accordingly we always strive for improving our practice and review our processes regularly for being able to find the optimised balance between ecological, social and economical targets. All our employees are encouraged to reconsider their behavior and work processes to ensure a greener future.