

MADNESS

THE NATURE TEXTILE COMPANY

www.madness-online.com

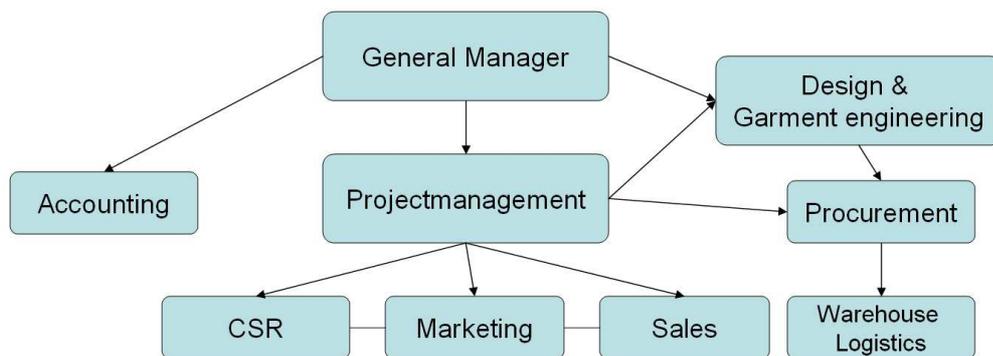
Start date membership

August, 2014

Reporting period

2014

Organisational chart





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1. Summary: goals & achievements 2014

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

– M.Warneke, General Manager of MADNESS –

Preamble (goals & achievements):

In 2014 we had a lot of discussions with the managerial level of our main production unit about the introduction of the Fair Wear Foundation. We installed the “Code of Labour Practises” (CoLP) at this manufactory and introduced the Fair Wear Foundation to this unit. Also we let an FWF audit at our main production unit in Noida, India take place, which has shown several non-compliances, we haven’t been aware of. What we learned in this case has been, that visits are a good tool for a first and second impression, but if your aren’t trained in audit excellence or similar skills, you won’t get to know all the hidden problems. Also standards of other NGO’s aren’t the solution for getting compliance with the high and strict social standards of the FWF. So we had to learn that trust, a lot of visits, audits of other NGO’s and a long term relationship isn’t everything. As we unfortunately started the membership at almost the end of our financial year, we had to do a lot to achieve compliance in a lot of points and didn’t exactly know what would be to do / is expected from us and how we should proceed to achieve compliance. It is expected from your company to show a lot of individual initiative, transparency and efforts. Furthermore you should know that the whole membership is costing you a lot of resources and capacities. We learned that you shouldn’t have the biggest expectations for your first year and especially not from the given circumstances related to the labour conditions in your production units, because no matter what you know about those given circumstances in your production units, there are still things that differ to your state of knowledge. Our main production unit is located in Noida in the region Uttar Pradesh. As we are GOTS certified, as all of our production units and their subcontractors, we thought this conjuncture would already have given a huge impact referred to labour conditions in the production units, but as far as we can state throughout our latest experiences, GOTS is definitely a very good way to ensure the observance and compliance for the topic of ecological sustainability, but nevertheless it is only a rudimentary standard, respectively tool for observance in case of social sustainability.

Summarized goals 2014:

- Introduction of the FWF and its goals / Making production units aware of our FWF membership
- Execution of an audit at our main production unit in Noida, India
- Implementation of the Code of Labour Practises (CoLP)
- Implementation of complaint system
- Higher transparency for the customer and their consumer
- Implementation of a monitoring system
- Payment of a living wage

Summarized achievements 2014:

→ We introduced the FWF and its goals to our main production unit and also made the management aware of our FWF membership. We started with the FWF introduction on the factory side mid of May, the same time we started the application for the FWF membership. The obstacles that we had in our mind, that the management of the production units would try to avoid the implementation have failed to appear, but on the other hand there have been a lot of other obstacles. One of the main issues has been of bureaucratic nature. Therefore you don't have a detailed list of things that have to be prepared and achieve compliance, because you do not have a clear state of affairs referring to the given circumstances at the production unit, you don't exactly know about all non-compliances in the production units until an initial audit. Another issue has been that we naively assumed the managerial level of the production unit would introduce their information to the workers, but they only did rudimentarily, what also has been a finding in the audit. Furthermore we didn't know about all the subcontracting production units of our main production unit, so we couldn't implement the CoLP in those units and besides couldn't visit all of those units and make a first health and safety check. But from the point of the already taken place audit until now, we are in discussions with the management of those subcontracting units to execute an audit and their agreement to the CoLP. All of those subcontracting units are GOTS certified, and all of them have already signed a Code of Conduct. From our point of view we have the duty to install our monitoring and complaint handling system to those subcontractors also, this is why we still are in open discussions with the management of those subcontractors.

→ An initial audit for social standards (standards for labour conditions complied to the FWF standards) has been taken place in November 2014 at our main production unit.

→ We received the signed CoLP from our main production unit, but already before received a signed BSCI code of conduct and a GOTS code of conduct from them. From our point of view there is still place for improvement no matter how far / good you are. Also we got to know a lot of things on that we had work / to improve locally, to receive compliance to the strict standards of the FWF. It was not really hard to convince the factory management of the win-win situation which will occur when we work together to achieve higher standards of labour conditions, but it was and is still a long way to go to make every person in charge aware of what is necessary to understand and to improve locally for a correct implementation of the FWF standards.

→ The implementation of the FWF complaint system has delightfully been taken place very easily, and we can say of the complaint system that it works. We received one complaint promptly after our first audit and one complaint at the beginning of March (which we are still investigating in [date 12.03.2015]. The complaint has been received via the FWF hotline from India. Both complaints have something to do with overwork and legal binding employment. It is definitely not good to get to know about complaints, especially not if you already know about those concerns throughout the audit, but it is good to see that the complaint system is running, so everytime a complaint will be passed on to us we are in the position to obtain improvements throughout findings, complaints and out this resulting discussions and actions. We are in a good position to use our leverage to ensure compliance to the FWF standards, because we have a leverage of 95% at our main production unit. For further details please have a look on the FWF website. For more detailed information, please find the text stated under point 4 "Complaints procedure"

→ The higher transparency related to the labour conditions in our production is given throughout the monitoring and the report of the FWF about complaints and endeavour that has been made by MADNESS, to improve the prevailing labour conditions in the production units as well as the investigation of complaints and findings in an audit. Furthermore we are reporting our goals and achievements annually in our social report on our Website and company site on FWF's website.

→ We implemented a monitoring system to track all companies that are involved in the production of our goods. The main thing is to communicate a lot with our main production unit about our supply chain. The other side is executing audits to find all relevant units in our supply chain. When the monitoring has taken place it is necessary to visit the manufactories and nevertheless keep the communication on line. Furthermore it is relevant for us to persuade the management and the worker level of the goals that we want to achieve throughout our FWF membership.

→ Payment of a living wage is a long term goal, until now we can tell you that we didn't reach this goal. Our agreement with our production units in this case has been to work on the topic "PAYMENT OF A LIVING WAGE" in a continuous process. At the moment we only know that the workers in our production units earn more than the minimum wage, but can not exactly state the amount, because the management of the production units won't provide us an insight to the loans of the workers on the ground that we shall not have such an economically insight to all of their processes.

Summary of key events and failures:

→ We became a member of the Fair Wear Foundation on the 1st of August 2014
→ The FWF executed an initial audit at our main production unit on the 17th of November 2014 // We received a CAP (Corrective Action Plan) and this had a huge impact on our view. We started to work on the required improvements and haven't completely finished working on some findings.

→ We received a complaint promptly after the audit concerning excessive overtime. We hired a consultant to ensure, that all findings in the audit will be handled in time, this includes excessive overwork. To track how long the people are working, Parvati installed a fingerprint system. This fingerprint system is controlling, when people are getting to work and when people are leaving work. So Parvati can control and track how long everyone is working. This should be used to avoid that some people are working by a usage of excessive overtime.

→ We received a second complaint. This complaint is about the topics, overtime, hire & fire and legal binding employment. We are investigating in this case. The first answer of the manufactory management to this accusation has been, that only a few people have left the factory, but on their own wishes. The overtime is a result of some different factors. On the one hand Delhi had a lot of cold days in the end of December and the beginning of January, so the workers didn't want to work in this time, neither if we arranged the setup of heaters. Because of this case we already had a delay of three weeks. The second was the result of rejected goods because of findings by the QM. Therefore we are forced to push our production units to fulfil the production as early as they can, what leads to work in 2 shifts. The work in 2 shifts isn't an unacceptable practise, but a lot of workers worked in double shifts not as recommended different workers in different shifts. The issue of hire and fire is a topic in that we are also investigating in. The production unit in charge has stated that only a few workers left the company and only on their own wishes. To legal binding employment, in the complaint it is stated, that someone (the name of the person in charge is confidential) called the FWF and told them that the workers still have to sign on a blank sheet of paper (this has also been a finding in the audit). The factory told us, that they are not used to this practise anymore and that this isn't correct. All of this complaints and answers will be checked at our next visit in the mid of April 2015, along the visit we will verify the answers and complaints, throughout checking all necessary documents. Furthermore Parvati will attend to a further audit which is needed throughout our monitoring system to verify all improvements also by a third party.

2. Sourcing strategy

2.1. Sourcing strategy & pricing

MADNESS is using a mix of a single sourcing and forward sourcing strategy, this implies that we are cooperating with one manufactory. At this manufactory in India, we have a leverage of about 95%. With this sourcing strategy we try to achieve a production at optimal costs and a higher inclusion of our main production unit to the development of new products.

The advantages are:

- Building **sustainable and long term relationships**, due to growing trust, what basically means that fulfill orders and payments is a routine process and doesn't require any hedges.
- Less complex communication, negotiation and logistics for the purchase department.
- Lower prices due to higher purchase quantities at a single manufactory.
- Continuous improvement of technical and communicative processes (continuously raising product quality and decreasing lead times) throughout the collecting of long term experiences
- Higher innovation skills

Disadvantages:

- High planning effort
- The risk to the loss of production by occurring shortness of supplies
- Strong dependence to a single manufactory
- Production of goods that lay beyond core competence of the manufactory
- A single sourcing strategy and as a consequence thereof supplier loyalty can lead to the problem that not the lowest priced product is bought
- Slight flexibility in the case of demand fluctuation
- Exposure of company owned business secrets

Nevertheless we are convinced that we decided in the correct way. We are from the point of view that you need a long term relationship to your supplier, to work sustainable and this generates a lot of trust. Furthermore our decisions and strategies have a bigger impact on our supplier what also causes a higher leverage. Our opinion is that we as brand and our production unit are partners and grow, but also lose together.

2.2. Organisation of the sourcing department

The sourcing department of MADNESS consists of the General Manager as Head of purchase and the last instance for making decisions. As also the Projectmanager to source new supplier by sustainable points of view (GOTS certified supplier and high labour standards appropriate to the ILO standards), to ensure a sustainable production. We will only source new suppliers if the technical process won't be mastered for required elements of our portfolio, or the production side of the supply chain reaches its limits. As mentioned before, the sourcing department consists of two people. One Project Manager, that is narrowing down the choice to a minimum of qualified potential new manufacturers. While this first view, the project management is covering up the sourcing policy as mentioned above. The Project Manager is the first person of MADNESS that is getting into touch with potential new manufacturers and discussing topics like the FWF standards with them to make clear if it makes sense to start a cooperation with the potential manufacturer. Afterwards we are introducing the FWF standards and have a first look what we can improve and what has to be adopted immediately before we start the business.

The second person and higher instance respectively decision maker in this case is the General Manager of MADNESS. He is visiting the new manufacturers before MADNESS is doing business with them. After this visit we make clear when it will be possible to let an FWF audit take place at this factory.

2.3. Production cycle

MADNESS is producing two collections per year

MADNESS is presenting two different collections per year – Spring/Summer and Autumn/Winter. Currently our winter collection makes ca. 60% of our total turnover and the other 40% makes our summer collection. In general we have a pre-order period in which our customers order. MADNESS Customers can be separated in 2 parts, from which every part makes ca 50% of our turnover: Part1 - The mail order companies; Part2 – The boutiques and other smaller retailer. The mail order companies are the first that see our sample collections and the first customers that order. For them we have 3 months lead time. Referring to Part2 we have 4 months lead time. We let 10-15% more goods be produced than ordered. The costs for the overproduction are covered by MADNESS, because most of the Part2 customers are used to do additional orders.

The order of our Spring Summer collection is placed in mid September.

The order of our Autumn Winter collection is placed at the end of March.

(The following processes can be concurrently)

1.) Evaluation of the last seasons // 1 week

2.) Planning of the new season + sampling phase // 4.5 months

- Incl. development of new products // 3.5 months
- Selection of the new color range // 1 month
- Determination of the new portfolio (styles, qualities, size of the portfolio) // 2-3 months
- Visits of production units // 2-3 weeks

3.) Sales (season) // 1.5 month

- Incl. exhibitions, catalogues, house calls

4.) Production // 4.5 months

- Material calculation // 2 weeks
- Cut, Make, Trim // 3 month
- Outsourcing of printing // 2-3 weeks
- Incl. QM // 2 weeks
- Visits of production units / Production monitoring // 2 weeks
- Shipment // 1-5 weeks (Air freight / Sea freight) incl. onward carriage

2.4. Supplier relations

Therefore MADNESS is satisfied by its main production unit we are only forced to source a new supplier when things will happen as mentioned above under the point sourcing strategy.

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

The General Director of MADNESS implied a sustainable philosophie to MADNESS. We try to achieve integrated sustainability for the company MADNESS. Therefore it is necessary for us to fulfil the topic of sustainability on its three dimensions. 1. Sustainability on its way of social justice, 2. ecological sustainability, 3. economical

sustainability. To fulfil the second point we try to let our clothes be produced in an ecofriendly way and let our production be controlled throughout the GOTS. To fulfil the first point we only want to cooperate with manufacturers that also believe in social equity. If those producers aren't producing their goods under fair labour conditions or aren't satisfying the ILO standards, we will help them to improve their labour conditions and satisfy the ILO standards / respectively work complied to the laws.

If MADNESS is sourcing a new supplier, MADNESS is looking for supplier that can satisfy the ILO standards, or supplier that are willed to change their business models to a fair model which is satisfying the ILO standards.

That means: If we are looking for a new supplier, we look for a supplier that already is working with social and ecological standards, which are satisfying our standards and already certified through reliable NGO's

The final decision regarding the selection of new suppliers makes M. Warnke, the General Director of MADNESS.

There are several criteria when choosing a new supplier. Main criteria are:

- The capability of the supplier to produce the ordered goods.
- The capability to produce the goods in a sustainable way.
 - Respect of labour standards (ILO)
 - Ecological (GOTS conform) production
- The proficiency to satisfy our quality standards or an outperformance referring to the topic of quality.
- Efficient intern processes and an appropriate and especially fluid working communication between us and the manufacturer (for instance unrequested reports regarding upcoming issues).

We partially work with other brands when we are looking for new suppliers. When we are working with them, we try to ask other brands, if they are working with manufacturers which are satisfying our sourcing policies and what experiences they made while the liaison. As already mentioned before we are a single sourcing company, this is why we haven't been sourcing for new suppliers in 2014. But we will try to make a contact with a turkey supplier in 2015/2016 to ensure the production with different/new fabrics.

Main production unit in India →

In 2013 we terminated the cooperation with a supplier from China. We had a long relationship for over 10 years with this supplier, but we became too small to be a customer at this manufactory and because of this they

discussed with us that we need to source a new supplier (this happened in 2011). In 2011 we started the cooperation with our main production unit in India.



2.5. Integration monitoring activities and sourcing decisions

Throughout our monitoring activities and especially the FWF audit we found out about some non-compliances to the ILO standards. Our way of making business implies that we try to help our production units to reach the aimed goals of compliance to the FWF standards and not to drop and run according to the motto devil-may-care. So we started to work on the received CAP of the Fair Wear Foundation and can speak about a lot of success, but nevertheless also some throwbacks. According to this throwback we especially mean the received complaint relating concerning the following points of the Code of Labour Practices:

Legally binding employment relation and no excessive overtime

We as MADNESS have to take the blame accounting for the point of excessive overtime, because of pushing our main production unit in the last peak time of our production. We are working on this issue to find a way of raising the lead time for Parvati, but also to avoid higher rates of rejection, due to a planned training for higher technical production skills. The other complaints (received in 2015) are not completely verified by us until we haven't convinced ourselves of those issues. At the moment we can only talk about a received complaint by a plaintiff. The complaint as followed:

"The plaintiff claimed that the factory dismissed him/her without prior written notice. (S)he also stated that (s)he did not receive an appointment letter at the beginning of the contract. According to him/her, it is common practice at the factory to make the workers sign blank sheets instead of contracts. (S)he claimed, that the factory management hires lots of workers in high season which are dismissed again in low season. Furthermore, the plaintiff stated that the factory management recently started paying social security. However, (s)he did not receive full social security amount due for the complete time of his/her employment.

Also, the plaintiff complained that (s)he had to work excessive overtime, which according to him/her also is common practice.

The authenticity of the accusation is under investigation."

The reply from the management of our main production unit concerning the accusation of non-compliance to the point "legally binding employment relation" has been, that they have been left by a few workers in the past three months, but only on their own wishes.

We are investigating in this case and report about our conclusion, which will depend on the verification of either the complaint, or the statement of the production unit.

If the complaint will be verified, we will work together with the FWF and our main production unit to find a conclusion in that we will elaborate action to be taken to prevent such occurrences.

3. Coherent system for monitoring and remediation

3.1. Main production unit / India

With the monitoring activities relating our main production unit, we have 92 % of our production under monitoring. The rest of 8% are outsourced production steps to subcontracting factories of our main production unit. Our whole production takes place in India. And the whole CMT takes place at one unit. We are visiting the factory 4-5 times a year and have a look on the production circumstances as far as labour conditions. As we

already mentioned above, only having a look on the manufactory and checking a list like a health and safety checklist isn't everything. We found out during an FWF audit we not only had to work on trivial things, but rather also on some major issues of the textile production in India. Major issues for India related to the FWF country study are:

- No payment of a living wage
- Excessive overtime
- No legally binding employment relationship
- Repression of the freedom of association and the right to collective bargaining

Throughout the last audit at our main production unit, we are aware of the situation and are willed to help them improve their working condition and situation in general. The process to clarify if improvements have taken place and the realisation/reaction to a CAP/audit in general as followed:

- The 1st step is to discuss the CAP and audit report to the manufacturer
- The 2nd step is to clarify mentioned / unclear points of the CAP with the manufacturer from face to face at a visit of the factory (urgent things will be discussed immediately via telephone and email)
- The 3rd step is that the manufacturer is ensuring is to improve on the CAP mentioned issues
- The 4th step is that the manufacturer has to send us pictures and/or documents which ensure the improvements
- The 5th step is that we will encourage the manufacturer to let the management and the workers participate at a workplace education program

To keep out of harms way we will let a further audit take place on our instructions (verification audit).

MADNESS is visiting its main production unit 4 to 5 times a year. While this visits we take minimum one day to discuss the labour standards and other things referring to given standards from NGO's to ensure a sustainable production of our goods.

Due to the communication with the FWF and our last stay, we noticed that we had to adopt our prevalent monitoring system and had to upgrade it by something more detailed, more reliable and more exact, than only visits. This is why e decided to let audits take place at our main production unit periodically, to verify improvements that have been the result due to the work on findings in the CAP, received after an initial / verification audit.

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

The selection process of production units where we let audits take place, is in our case really simple. Since our main production unit is in charge for 92% of our production, we decided to start auditing our supply chain complied to FWF standards at this unit. Therefor we want to ensure that all of the already taken place improvements become verified, so also the next audit will take place at this manufactory.

The most important findings due to our monitoring and the initial FWF audit are compared to the FWF country study of India (those following findings have directly been copied and pasted from the CAP which we received after the initial audit): **“Abstract of**

the CAP after an initial audit at our main production unit" [Darkblue=Finding of Auditors // Brighter blue = Answer of the factory management and corrective action]

→Excessive overwork:

Overtime work is not voluntary and excessive.

Overtime authorization letter is received from Labor commissioner, and putted up on board.

→Legally binding employment relationship:

1. Workers are hired and fired regularly, without any notice. Calls received from workers post audit confirmed that workers do not have job security and could be terminated any time, without any notice.

1. This isn't correct. All terminated employees were given a month notice period. This was discussed with the General Director of MADNESS during his visit here in September 2014.

2. Security guards are employed, but no records are maintained for the team to review its compliance/non-compliance issues.

2. This is being done as with other normal employees. Attendance register showing guards attendance. The register has been shown to Auditors. However FWF is looking for exact IN/OUT timings. The same is being maintained effective in December (implementation of fingerprint system).

3. It was observed during document review was that, in one of the personal files, signature of worker was taken in a blank sheet of paper. Additionally, signatures of workers were also taken in blank appointment forms. This is gross non compliance, as it could lead to illegal termination.

3. This was the case for only one employee and that unintentional. The employee was marking signatures in all papers and by mistake he signed a blank paper as well. This went unnoticed with Admin person too. However a process has been set to ensure no such further incidence.

→Freedom of association and collective bargaining:

1.) There is no system available in the factory to ensure freedom of association, there are no worker committees, no worker representation, no management representative to undertake labour welfare.

1.) A designated person has been elected for the worker committee and also one female person has been elected for being the representative for the sexual harassment committee. The designated persons have been introduced to topics and trained. E.g. HR person explained again few key points about Leave policy, Advance policy and Social Security (including Health benefits) to all employees and representatives. Also all their clarifications regarding same were addressed. In the last committee meeting a new representative has been elected, Mr. Salman.

Sexual harassment: This meeting had only female employee present along with HR guy. All were explained the various aspects of this committee and their concerns were heard and subsequent action taken. Mrs. Usha Devi was elected as new representative of this committee.

2.) It was also reported during offsite interviews, that there was a general strike (one year back), jointly called by the central trade unions and the garment factories in Hosiery complex. The area was worst affected and were targets of angry workers. Parvati Fashion workers also participated in that strike and its building also experienced that anger of workers. Those workers are not working in the factory anymore. This was

however not confirmed during the audit day.

2.) As discussed with General Manager of MADNESS, Parvati Fashion didn't even exist in this area when the said incident occurred. Parvati shifted to this area in June 2014. Not sure why this point has been put here

→Payment of a living wage:

1.) Information gathered from inside the premise observed that workers are paid above 6500, while calls received after the audit highlighted that some workers are paid below minimum wage like INR 5500 to the housekeeping staff. [The minimum wage of the state is INR 6399].

1.) Revised the wages to meet minimum wages.

2.) The wages paid to the piece rate workers are based on the pieces they make, whether it achieves the minimum wage level or not, is not ensured by the management which is expected by law.

-Where an employee is employed on piece rate work, the employer shall pay to such employee wages at not less than the minimum time rate. [Section 17, The Minimum Wages Act, 1948].-

2.) As suggested this also is done.

3.) Female workers are not aware of their wages.

3.) Every employee is aware of his/her wages.

4.) Workers are paid on the 10th of every month. Calls received after the audit, the workers stated that they are paid very late - sometimes on the 10th or 11th. There is no consistency. (However, the documents state that the wages are paid on the 7th). Wages are also paid in cash.

4.) Salary accounts have been opened for all employees. Salary is now disbursed latest by 7th directly into bank accounts.

→Reasonable Hours of work:

Factory engages in excessive overtime hours, however:

1.) During documentation, working hours could not be verified since factory do not have proper time recording system.

2.) Generator records, security guard records show that excessive overtime is conducted, with night work at times. Whereas no permission is taken from the local concerned authorities on the same.

3.) Records are not maintained for piece rate workers but information gathered from other sources confirm that overtime hours is conducted everyday for everyone, except women workers.

-Inconsistent documentation suggests flaw in the system, which must be rectified. It is imperative that the workers are paid as per the legal requirement (The Factories Act, 1948) and that the documents are maintained as per the system followed in the factory.

In accordance with Factories Act 1948, Section 64 (4) (i), the total number of hours of work including overtime in any day shall not exceed 10 and as per clause (iii) and (iv) the total number of hours in a week including overtime shall not exceed 60, and the total number of hours of overtime shall not exceed fifty for any quarter.-

1, 2, 3.) Finger Print biometric machine has been installed to record IN/OUT timings of all employees. Also the said rules have been implemented. Records shared with Project Manager and FWF designated person of MADNESS.

4.) No records are maintained for piece rate workers - their details, the working time, or wages received.

-Records of all workers must be maintained, if who worked for a day.-

4.) Maintaing records as suggested

→**Sexual harassment:**

There have been no findings concerning sexual harassment

4. Complaints procedure

As already mentioned above we received a complaint. As far as we know, the complaint isn't closed until now. To the complaint:

The complaint:

The complaint is about the topics, overtime, hire & fire and legal binding employment. We are investigating in this case. The first answer of the manufactory management to this accusation has been, that only a few people have left the factory, but on their own wishes. The overtime is a result of some different factors. On the one hand Delhi had a lot of cold days in the end of December and the beginning of January, so the workers didn't want to work in this time, neither if we arranged the setup of heaters. Because of this case we already had a delay of three weeks. The second was the result of rejected goods because of findings by the QM. Therefore we are forced to push our production units to fulfil the production as early as they can, what leads to work in 2 shifts. The work in 2 shifts isn't an unacceptable practise, but a lot of workers worked in double shifts not as recommended different workers in different shifts.

The issue of hire and fire is a topic in that we are also investigating in. The production unit in charge has stated that only a few workers left the company and only on their own wishes. To legal binding employment, in the complaint it is stated, that someone (the name of the person in charge is confidential) called the FWF and told them that the workers still have to sign on a blank sheet of paper (this has also been a finding in the audit). The factory told us, that they are not used to this practise anymore and that this isn't correct. All of this complaints and answers will be checked at our next visit in the mid of April 2015, along the visit we will verify the answers and complaints, throughout checking all necessary documents. Furthermore Parvati will attend to a further audit which is needed throughout our monitoring system to verify all improvements also by a third party.

Our solution:

We are discussing a technical training and the investment in new machines, to make repetitive tasks more automating and control the wastage as well as the rejection of goods throughout bad workmanship. The investment in a technical training for workers is a sustainable investment. It makes the workers more capable, due to this it is increasing the quality of products, reducing the risk of rejection, is increasing the productivity (shorter production times → both factory and brand can react more dynamic, if rejections of goods are occurring) and the workers (the whole human capital) are increasing their importance to the factory and consequently last longer in an employment relationship with the factory. Also the manufactory finds itself constrained to give the workers higher wages and improve their working conditions to ensure the retention of their high capable human capital.

Referring to the issue of hire and fire: Our main production unit has already renewed its factory policies. Furthermore a worker committee has been implemented and comes along with an elected representative person. The employees have been informed about the policy of "hire and fire" and everyone who will be fired is getting a month notice. In this case we are still investigating and checking all documents of the persons that left the company after the audit in November. Furthermore we received the information, that the fired person which is talked about in the complaint, doesn't want to work at the

company anymore and when he was fired he refused to take its salary, but now wants to take his salary. We forwarded this information to the production unit and now are waiting for new information concerning this case. To make sure similar incidents won't happen again, we will control the policy and their system of "hire and fire" at our next visit.

In general:

Rakesh Kumar Choudhary is the person in charge for our main production unit. He is training the workers and the management and also informing them about all topics of FWF. Also Mr. Choudary will be our direct contact person of Parvati Fashion concerning all topics related to FWF, that we can contact if we have to handle complaints, discuss issues from a CAP / audit, or inform Parvati about updated information of FWF.

If complaints will reported by FWF to us, or directly by a worker to us, we will inform Mr. Choudary about this issue and discuss a way with him to solve this problem / how to handle this issue. Also we will support him when our help is needed.

MADNESS has also a designated person to handle received complaints.

The complaint in general is firstly discussed in house (MADNESS Project management and General Management) than forwarded to the production unit and discussed with them. We want to hear both sides the person that is complaining (the person is anonym and using the local FWF complaint handler as a voice to communicate with us. Than we are abstracting a monitoring schedule to follow up to the complaint structured. After discussing the complaint with the production unit, we are purchasing relevant documents and information, as also pictures etc. for a verification of stated things. Furthermore we are forwarding our information to the FWF and discuss how we should proceed to investigate in those cases. If we can verify the stated things from our supplier throughout controlling the verification documents and pictures at a visit of the unit, the complaint is discussed again with the FWF and getting closed unless one of the stakeholders isn't satisfied by the outcome. If the stated things from the production unit couldn't be satisfied, we are discussing ways to implement processes and systems, to avoid further incidents and demand the clarification of this incident.

When the complaint is closed we monitor the root causes for the complaint and help the production unit to implement processes and systems to avoid further incidents or we proceed as mentioned above and search for other solutions, that help to improve not only the issue in charge, but also help to improve other things like technical standards.

5. Training and capacity building

5.1. Activities to inform staff members

Everyone of the staff of MADNESS has received a briefing with information, about what the Fair Wear Foundation is doing and what we have to do. Also every employee of MADNESS receives an update about what is to do in the next year for the implementation of FWF standards along our supply chain and what we achieved in the last financial year.

5.2. Activities to inform manufacturers and workers

The workers have been informed about FWF standards due to the hang out of the worker information sheets and the complaint handling poster. Furthermore they should have been informed by the management, but unfortunately have firstly correctly being informed by the local FWF audit team and received at that time worker information sheets also.

It is now planned to let the staff of our main production unit (workers and managers) participate at a WEP in May of 2015 (WEP means Workplace Education Program, which is raising the awareness about workplace standards and grievance systems, as also an important step towards building effective workplace communications and violence prevention).

We found out that the biggest topic we have to work on in our main production unit is the issue excessive overtime. The main point why the workers are doing a lot of overwork is that they aren't trained enough (technical performance of workers). Due to this point the production unit has a lot of rejections, what implies the appearance of delay and this causes excessive overtime, to fulfill the production in time or without too much delay. Our conclusion in this case is, that we want the workers to participate at a technical training also. We are from the point of view, that increasing technical skills will effect a higher product quality and decrease the required material input. Therefore the costs of the product consist of ca 75% material costs, a lot of financial capacity will become available (we want to decrease the wastage of raw material by ca. 10%) and can be reinvested in new machines or used to increase the wage of the workers.

6. Transparency & communication

MADNESS is communicating its FWF membership on Fairs, its catalogue, the own website and in sales meetings. Furthermore we are publishing the social report on our website and if applicable the Brand Performance Check. To outline what achievements we have and how far the implementation of the Fair Wear CoLP is, please find the most important findings of our audit report under point 3.1 Coherent system for monitoring and remediation.

The implementation of the FWF Code of Labour Practices is in a good progress.

92% of our production is under monitoring and is fulfilled at our main production unit. Therefore we are used to have a strong cooperation with our main production unit and could persuade them of the positive sides that occur due to the improvement of labour standards in the supply chain, we had a good starting situation for the implementation of the FWF Code of Labour Practices. Due to the process on things we had / have to work on, stated in the CAP after the initial audit in November 2014, we have improved a lot. For a smooth implementation, a consultant has been hired to support Parvati Fashion while the process of FWF CoLP implementation.

1. Management system of factory to improve working conditions:

→The factory has implemented a system to gather information about social compliance and achieved improvements on its compliance status. A separate big notice board for displaying all relevant information (improvements etc.) is displayed on shop floors. Any improvements done are displayed there.

→The factory has installed a designated person the is accountable for the documentation and the follow up.

→They renewed their factory license comparing to the law.

→The factory displayed the notices of abstracts of the relevant labour laws in local languages.

→The factory renewed its factory policies and documented this policy.

2. Communication and consultation:

→The factory formed an internal grievance system and due to this facilitated independent worker committees. A worker committee has now been implemented.

→Company policies and local laws are communicated to the staff

→Suggestion / Complaint box has been replaced to a more discrete location.

3. Employment is freely chosen:

→Overtime authorization letter hangs out on a board and people sign in for additional

work. So a system to ensure the voluntariness of overwork is implied.
→A fingerprint system has been implemented to control the actual working hours of workers.

Overtime is checked, communicated correctly and reasonable to the staff. The fingerprint system is checking the in and out timings of workers and due to that is counting the working hours.

→Persons can get hired and fired, but in compliance to the law with a notice period of one month.
→A system has been implemented to avoid incidents of blank paper signs by workers.
→Records of piece rate workers have started to be maintained.

4. No discrimination in employment:

→The factory management ensured the renewal and correct draw up of compliance achieving factory policies (as mentioned above) which include all points of the FWF CoLP incl. No discrimination in employment.

5. Freedom of association and the right to collective bargaining:

→Workers now have a channel to communicate their concerns to the management through appointed worker representatives. Those representatives have been communicated to the staff.

6. Payment of a living wage:

→Salary accounts for every employee have been opened in cooperation with the staff.
→The monthly salary is now disbursed latest on the 7th of every month directly into the bank accounts. Every employee has been informed about his/her wages concretely → Everyone is now aware of what he earns and when he is getting the money.
→Overwork is now payed, according to Section 59 of the Factories Act, 1948, at the rate of twice of his/her ordinary wages.
→Unfortunately it is only paid the minimum wage to the workers. we are working on this very important point to increase the wages. The Date of Salary and the amounts of minimum wages are displayed and visible for every worker in the local language.
→HRA is payed to the workers and transparent visible if requested due to an implied software based system.
→Conveyance is also payed to the workers and also transparent due to an implied software system.



7. Stakeholder Engagement

Relevant Stakeholder for MADNESS are:

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

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

A good and relevant information source related to the topic of social justice/sustainability is the FWF here we inform ourselves by reading the country study, to get to know about the main concerns in the Indian textile production. Also we are keeping involved into the topic throughout stakeholder meetings and seminars.

8. Corporate Social Responsibility

MADNESS is supporting the organisation “Rightway Social & Welfare Society” (RSWS) now for a period of 2 years. Since we are really satisfied with the work and outcome of the organisations work, the support/cooperation shall continue for further years. MADNESS and its main production unit are especially supporting the programm “Education for underprivileged children”. This program is trying to help children and young adults that live in slums and have not access to education, to find their way into the worklife and most important is giving them education where they can't afford it. Rooms are rent and services of teachers are offered to the children, to provide them education.

