

MÁDARA
organic skincare

ESG REPORT

ENVIRONMENTAL
SUSTAINABILITY

SOCIAL
RESPONSIBILITY


AND CORPORATE
GOVERNANCE REPORT

PUBLISHED: AUGUST 2018

PERIOD OF REPORTING: JANUARY-DECEMBER 2017

TABLE OF CONTENTS

A message from the founder	4
PART 1	
SUSTAINABILITY VERSUS GREENWASHING	8
What is organic in beauty?	10
Tsunami warning	11
What's wrong with the ISO standard?	12
Free from opinion	13
PART 2	
ENVIRONMENTAL SUSTAINABILITY	17
2.1. Sustainable Ingredients	21
Sustainability of stem cells	23
2.2. Sustainable Packaging	25
2.3. Sustainable Manufacturing	27
PART 3	
SOCIAL RESPONSIBILITY	30
3.1. Foundations of social responsibility	32
3.2. Equality and humanity	35
3.3. Equality in figures	36
3.4. Health & Safety at MÁDARA	38
PART 4	
CORPORATE GOVERNANCE	41



**EVERY SINGLE CHOICE, EVEN SKINCARE-RELATED,
GOES DEEPER THAN SKIN.**

IT'S EITHER SUSTAINABILITY OR WE

Some near-future scenarios predict that several of the world's leading countries and territories might disappear under water. It is time for us to learn how to recycle, how to swim, and get ready for the contemporary lifestyle the Venice way. Yet, as much as this kind of sustainability is essential, it is unreachable. Simply because it's the way. And there is no way out of this way.

But we can count on our sustainability milestones and celebrate our sustainability moments. This is the reason we created this ESG report. It aims to provide a deeper insight into the environmental, social and corporate governance practices at AS MADARA Cosmetics (further in the document referred to as MADARA).

In the last full operating year – 2017 – we went further down THE way of launching sustainable products, increasing green energy consumption, supporting social activities and equality and becoming even more open though our IPO and the Nasdaq-listed public company status.

In 2017, the Company has made the initial public offering (IPO) and is now listed on the Nasdaq Riga alternative list First North. The share price during 2 months of listing increased by 20% from the IPO price of 6.25 EUR to 7.50 EUR, staying at 7.4 EUR in August 2018.


The audience of the report is investors as well as other stakeholders – including customers, employees and community members. The ESG factors covered in this report include metrics outlined in the Nasdaq ESG REPORTING GUIDE for Nordic and Baltic countries as well as highlights other important sustainability and corporate social responsibility practices of the company.



Lotte Tisenkopfa-Iltner, MADARA founder

Lotte Tisenkopfa-Iltner

MÁDARA founder



DEEPER THAN SKIN IS THE PHILOSOPHICAL
ESSENCE OF MÁDARA, MEANING THAT BEAUTY
HAS A DEEPER IMPACT. INGREDIENTS CAN
INFLUENCE OUR BODY, HEALTH AND THE
ENVIRONMENT; PRODUCTION, SOURCING
AND PACKAGING PROCESSES ALL HAVE
THEIR IMPACTS. WHEN PRODUCERS AND
CONSUMERS REALISE HOW DEEP AND WIDE
THESE IMPACTS ARE, IT HELPS TO MAKE MORE
INFORMED DECISIONS AND CHOICES ON
BOTH SIDES OF THE COUNTER.

100%
NATURAL
COSMOS
CERTIFIED

of ageing, detoxes

DEEPER THAN SKIN

ESG
PERFORMANCE
AT A GLANCE

2017

96%

96% of our plant-based ingredients* are certified organic.

*plant oils, plant extracts, waxes, butters, floral water and similar



MÁDARA cosmetics are certified according to the international ECOCERT or COSMOS standards which defines and supervises ingredient sourcing, packaging and manufacturing processes.



100% RECYCLABLE PACKAGING

Our primary packaging (e.g. bottles, flacons) is made of recyclable materials.



POWERED BY 100% GREEN ENERGY

In 2017, more than half (60%) of electricity consumed came from 100% renewable resources.



ENERGY-EFFICIENT MANUFACTURING

1 PRODUCT=1177kJ

In 2017, MADARA energy intensity was 1177 kJ per 1 product manufactured, whose nutritional value is 2 large bananas.

LOW CO₂ EMISSION

110 tons in 2017

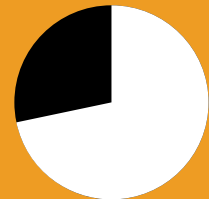


EQUAL GENDER PAY



GENDER DIVERSITY RATIO

Female employees at MÁDARA: 72.22%



● Men ● Women

365

HELPING THE COMMUNITY

Our contribution to NGO MARTA in 2017 provided 365 FREE of charge legal or psychological consultation sessions for victims of human trafficking and domestic violence, mostly women and children.

THIS MEANS 1 CONSULTATION A DAY.

200

During 2017, we have helped around 200 children and youngsters



PART 1

**SUSTAINABILITY
VERSUS
GREENWASHING**



WHAT IS ORGANIC IN BEAUTY?

SORTING OUT CERTIFICATIONS

Unlike the food industry where organic product manufacturing, labelling and retail is controlled by the European Union regulation for organic agriculture, the legal framework of cosmetics does not distinguish between synthetic conventional and natural/organic products. Following the rising consumer demand for pure, organic and clearly labelled beauty goods, several organisations in Europe have created standards for formulating and labelling natural and organic cosmetics.



ECOCERT GREENLIFE SAS is an organic certification organisation, founded in France in 1991. ECOCERT was the very first to develop standards for natural and organic cosmetics. The organisation is based in Europe but conducts inspections in over 80 countries, making it one of the largest organic certification organisations in the world. ECOCERT currently supports and guides more than 1,000 companies through their certification processes. From January 2017, ECOCERT certifies cosmetic formulations according to the COSMOS standard.

COSMOS ORGANIC and **COSMOS NATURAL** are the first and only pan-European standard for organic and natural cosmetics, created by several associations and organic cosmetics certification bodies: BDIH (Germany), COSMEBIO (France), ECOCERT GREENLIFE (France), ICEA (Italy), SOIL ASSOCIATION (United Kingdom). According to COSMEBIO, 85% of organically certified cosmetics across the world are certified according to the international COSMOS standard.



Natrue is another organisation, which primarily unites Germany-based natural cosmetic manufacturers. Natrue has developed its own natural cosmetics standard, which has slight differences from the COSMOS standard. The key difference is that the Natrue certification inspects the product ingredients and labelling, but does not inspect the manufacturing site.



Recently the International Standardisation Organisation (ISO) published a guideline for natural beauty products. The guideline is considered controversial and “weaker” than ECOCERT/COSMOS or Natrue because it permits petrochemical and GMO (genetically modified) ingredients. The ISO natural beauty standard should not be with other ISO standards, such as Guidelines on Good Manufacturing Practices (GMP) for cosmetic products.

OUR CERTIFIERS

MÁDARA products are certified by ECOCERT/ COSMOS, which allow consumers to know that the product meets the international criteria of natural or organic cosmetics and is free from petrochemical ingredients such as synthetic fragrances, harsh preservatives etc.



	COSMOS	NATRUE	ISO 16128
Precise ingredient rules	YES	YES	NO
Precise labelling rules regarding natural or organic product	YES	YES	NO
PETROCHEMICAL INGREDIENTS	NO	NO	YES
GMO	NO	NO	YES
Producer inspection	YES	NO	NO

TSUNAMI WARNING

Two recent turbulences in the cosmetic regulatory sector are about to cause a tsunami of greenwashing in the European cosmetic shelves. We take a closer look at recently published ISO standard for natural/organic cosmetics and updates in the EU legislation regarding beauty product claims.



WHAT'S WRONG WITH THE ISO STANDARD?

Recently the International Standardisation Organisation (ISO) published a guideline for natural beauty products. ISO standards are renowned for their credibility in industrial sectors, but the move into the consumer sector seems to be in the direction away from transparency and reliability. Rather than solving the natural cosmetics labelling confusion, the ISO has totally messed up the scene by permitting petrochemical and GMO (genetically modified) ingredients to be included in “organic” formulas.

To get the picture right, it is important to realise that the new ISO guideline must be considered together with the recent EU regulation update regarding cosmetic claims. The core idea for ISO 16128 was to have a guideline on natural and organic cosmetics, which the conventional synthetic cosmetics industry could use to legitimise natural and organic claims on products (in line with the general European directive on claims). It is important to emphasise that ISO 16128 is a guideline or recommendation, which might become a base for further development of standards.

There are no precise or constraining criteria in this guideline, only some definitions and just - inconsistent calculations. Many fundamental problems in the new ISO make it considerably weaker than the ECOCERT/COSMOS or NATRUE standard.

The main issues regarding ISO 16128 are:

- There are no criteria for the composition of the final products, not for the labelling.
- Synthetic/petrochemical ingredients such as silicon, mineral oil, etc. can be present at a high level in a product, which could claim natural or organic content.
- GMO ingredients are permitted.
- No third party control is required to attest compliance with the criteria.

Currently, the new ISO does not have an impact on the regulatory framework and does not require changes of product formulas or labels. But we have to be aware that adopting the guidelines will increase the risk of the market being flooded with illegitimate and almost-natural products instead of truly authentic ones. This will mislead the consumers and impact the authentic producers negatively. Even if ISO 16128 is included in EU legislation, there will not be any changes in the current activities and marketing strategy of MADARA, meaning that we will still certify our products according to the ECOCERT and COSMOS standards and keep our existing formulas, which will definitely ISO 16128 as well.

From MADARA's viewpoint, ECOCERT/COSMOS standards are more trustworthy as they involve many more precise rules regarding the origin of ingredients, production and labelling control as well as overall environmental impact, which are important points for the consumer when choosing natural cosmetics.



FREE FROM OPINION

An additional annex confirmed by EU authorities regulating the use of claims will significantly impact the labelling and marketing of cosmetic products from July 1, 2019. While some of the rules make sense and promote the principles of fairness and honesty, others silence the voices of consumers, compromise sustainability and facilitate greenwashing.



From July 1, 2019 many claims including “paraben free”, “perfume free”, “allergen free” and “hypoallergenic” will be restricted to use on cosmetic products. According to the EU regulation, claims on cosmetic products should conform to a common criteria, including legal compliance, truthfulness, evidential support and fairness, which is totally reasonable. The newly released guideline interprets these and many more claims as unfair or misleading. But is it truly so? In the case of restricting “paraben free” and similar claims, the guideline actually throws the baby out with the bathwater and compromises the rights of consumers to demand the kind of products they want – safer and more sustainable.

“
SAFE AND ALLOWED TODAY DOES NOT
NECESSARILY MEAN SAFE AND ALLOWED
TOMORROW

Parabens – so what’s the problem, again? Parabens are commonly used as preservatives in cosmetics. The main concern regarding parabens in cosmetics is the potential of some of them to act like hormones in the body, in particular – oestrogen, the female sex hormone. In 2011 the Danish government banned the use of some parabens in products intended for children as they might be especially vulnerable to hormone-like effects. Following Denmark’s initiative, the European Commission amended the EU Cosmetic Regulation by adding five parabens to the list of substances prohibited in cosmetic products (isopropylparaben, isobutylparaben, phenylparaben, benzylparaben and pentylparaben). However, the most commonly used parabens (methylparaben, propylparaben, butylparaben, and ethylparaben) remain listed as preservatives of cosmetic products.



SUSTAINABILITY VERSUS GREENWASHING

After a series of scientific publications and growing evidence on the risk of parabens, it was actively discussed in the media and by consumers and parabens became a commonly blacklisted ingredient. As parabens are used to preserve the majority of conventional cosmetics, it caused headaches for synthetic/conventional cosmetic formulators. The rise of the “paraben free” formulations became tremendous over the years. No wonder that Cosmetics Europe, the European trade association that include conventional cosmetics and personal care manufacturers, was one of the major influencers in the lobbying process for the new annex.

According to the new guideline, the claim “paraben free” should not be made, because some of the parabens are legally allowed to be used. So strikingly simple! Besides, the “paraben free” claim must go away because it implies a negative perception on the whole group of parabens. It’s like assuming that if one family member is found guilty of a crime, the rest of the family are guilty as well.

And now, inhale, exhale and read it again. Did it mention safety? Shall we consider the list of allowed cosmetic ingredients (CosIng) as the “Ultimate Bible” which ensures the safety of ingredients from A to Z? Now I would like to remind you that in the past five years 137 raw materials were banned for use in cosmetic products in the EU, and the total amount of beauty poisons currently includes 1383 substances. The list of allowed cosmetic ingredients is a dynamic document with ingredients removed from the list nearly every year. Compliance with regulations does not ensure the ingredient or product safety per se, as the regulation itself is subject to change along with the increasing scientific evidence on ingredient risks and side effects. Safe and allowed today does not necessarily mean safe and allowed tomorrow.

Even though some parabens have less adverse effects than others, they are far from being fundamentally safe. Instead of promoting further education of the market (both consumers and manufacturers) on the risks and benefits of some important ingredients, the new annex just shuts the mouths of consumers and tears off the labels. People have no more rights to demand a paraben free product and explicit labelling, no more freedom of speech on either the manufacturer or consumer side.

I have never been an advocate of paraben free types of claims because I have seen too many “greenwashing” formulas which reduce the parabens but introduce phenoxyethanol (formaldehyde donor) to preserve luscious mango butter (which, in fact, is based on mineral

oil and infused with synthetic mango fragrance). But, on the other hand, such claims along with media influence definitely contributed to shifting the consumer preference towards greener choices and fuelled the ongoing double-digit rise of the natural/organic product demand for more than a decade.

The new reality removes pressure from conventional producers to deliver “free from” formulas, be it parabens, phenoxyethanol, or any other blacklisted ingredient. Along with the fact that Europe still misses a legal definition of organic/natural cosmetics, we can expect a new wave of greenwashing products overflowing European beauty shelves with lush green herbal essences, preserved with whatever kills microbes the best.

“
**WE CAN EXPECT A NEW WAVE OF
GREENWASHING PRODUCTS OVERFLOWING
EUROPEAN BEAUTY SHELVES WITH LUSH
GREEN HERBAL ESSENCES, PRESERVED
WITH WHATEVER KILLS THE MICROBES
BEST.**

Of course, parabens are just a bold example of the ugly side of the beauty industry, but there are many more shady or explicitly dangerous ingredients, for instance chemical sun filters. Luckily, there is some good news, too. Some of the outlined norms are applaudable, as they are designed to prevent cosmetic marketing from going nuts with misleading or over-exaggerated claims. Starting July 1, 2019, consumers, for example, can go shopping for shower gels with honey because the products explicitly or implicitly claiming that they contain honey must actually contain it – not just honey flavour or scent, in order to be truthful.

Any moisturising or anti-wrinkle promise should hold appropriate and adequate scientific evidence to substantiate the claim. Even though it is common sense, not all formulators or brands have followed the principle of evidence-based communication. The new annex also provides brief guidelines for cosmetic testing principles.



A landscape photograph showing a pond in the middle ground, surrounded by dense green trees and bushes. The foreground is filled with low-lying green plants and some brown leaves. The sky is overcast and grey.

PART 2

ENVIRONMENTAL SUSTAINABILITY

WE ENJOY THE SHADE OF THE TREE WE DIDN'T PLANT

ENVIRONMENTAL SUSTAINABILITY



Named the No. 1 greenest and most sustainable enterprise in Latvia by Green Dot three times, MÁDARA believes that care for the environment and sustainable business practices are at the core of the future economic and social wellbeing of the planet.

ENVIRONMENTAL SUSTAINABILITY

MÁDARA manufactures certified organic and natural skincare products, using organic and natural raw materials, recyclable or post-consumer recycled packaging and processing/manufacturing techniques that are clean and respectful of human health and the environment. With 96% of plant-based ingredients¹ being certified organic, MÁDARA promotes organic agriculture and biodiversity, restricts the use of chemicals, such as pesticides, and harmful chemical processing.

MÁDARA products are certified by ECOCERT according to the international ECOCERT/COSMOS standards which define and supervise ingredient sourcing, packaging and manufacturing processes. Along with ISO GMP standards, the ECOCERT voluntary organic certification underlines our commitment to creating innovative skincare products that are safe both for humans and the planet.



ECOCERT/COSMOS requires a certified producer to have an environmental policy which addresses the whole manufacturing process and all the residual products and waste resulting from this. MÁDARA's environmental management plan includes monitoring procedures for all the key environmental impact indicators, which allows one to evaluate and improve the environmental performance of the enterprise each year:

- > CO₂ emissions
- > Energy consumption
- > Water consumption
- > Rainwater pollution
- > Waste management
- > And others

Striving to be among the pioneers of sustainable manufacturing business, MÁDARA recognises that sustainability is a mindset rather than state of the art. Therefore the Company continuously rethinks and restructures sourcing, production, packaging, delivery and other practices.

¹plant oils, plant extracts, waxes, butters, floral water and similar



2.1. SUSTAINABLE INGREDIENTS

Good food starts with good ingredients. Good skincare is just the same. Raw-materials have an impact on both the skin and on the environment.

Natural ingredients provide better health and environmental safety

During the course of the 20th century many ingredients have been introduced into skincare products without sufficient safety assessments. In the past decades, scientific research indicates that many chemicals used in cosmetics have negative health impacts, and a large number of synthesised ingredients have been banned by the regulating authorities.

Reduced contaminants

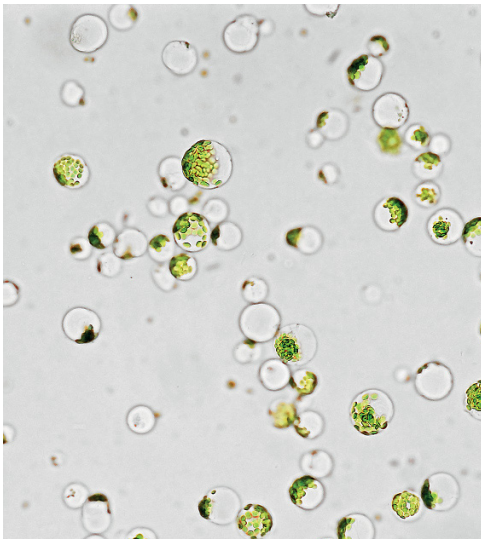
The manufacturing process of many synthetic raw-materials produces unwanted by-products and impurities, which can contaminate cosmetic products and pollute the environment. For example, the widely used polyethylene glycol production process can yield harmful contaminants such as 1,4-dioxane, which is a carcinogenic substance. Organic ingredients are free from by-products of chemical synthesis and the production process is considerably cleaner compared to ingredients synthesised from petrochemicals.

Free from pesticides

Unlike conventional agriculture, organic farming restricts the use of pesticides, chemical fertilisers and growth enhancers. Intensive industrial agriculture often compromises environmental sustainability – polluting soil and water with residues of agrochemicals and endangering the biodiversity of species. Non-organic agro-ingredients may also have a negative influence on human health as they may contain the residues of agricultural chemicals in the final product. It is well known that most of the fertilisers and pesticides efficiently penetrate through the epidermis (skin), indicating their ability to systemically influence human health. Even in low concentrations there is a cumulative effect of agrochemicals on the human body. Many of them have been proven to have an effect on the endocrine system. To minimise health and environmental risks associated with intensive industrial agriculture, 96% of MÁDARA plant ingredients¹ are sourced from organic farming.

Precautionary principle

In accordance with ECOCERT/COSMOS standards MÁDARA follows the precautionary route when there is scientific evidence that an ingredient, technology or process could pose a health or environmental risk: it is not included in the formulation or manufacturing. For this reason, genetically modified organisms (GMOs) are not used in MÁDARA formulations. Irradiation of raw materials with Gamma and X-ray irradiation are forbidden.



¹plant oils, plant extracts, waxes, butters, floral water and similar

ENVIRONMENTAL SUSTAINABILITY

✓ MICROPLASTICS FREE

You can't see it therefore it's not bothering you? Wrong! So small you can't see it with your eye, yet so disastrous it can create a pollution catastrophe with the potential of destroying marine life. Microplastics are plastic pieces smaller than 5 mm that easily pass through water filtration systems and end up in the seas and lakes. They can enter the waters as primary microplastics, like beads from personal care products or microfibres from clothes, and secondary microplastics from larger plastic items that get broken into smaller pieces. The tiny size is one of the reasons why it's so harmful - it's impossible to clean it up at the beach and it's easily ingested by everything from zooplankton, the base of the marine food chain, to birds, fish, turtles and whales. It is estimated that over 90% of seabirds have pieces of plastic in their stomachs. Fish, marine mammals and seabirds are being injured and killed by plastic, and it is believed that 700 species could go extinct because of it. As the food chain continues, the harmful pollutant might even end up on your dinner plate.

This is one of the main worries of the cosmetics industry as microplastics are usually found in face exfoliators, toothpastes, shower gels and body scrubs. They were recently banned in Great Britain and some other countries but are still taking over most parts of the planet.

All of the cosmetic products made by MADARA are manufactured without the use of microbeads. Instead of that, we use natural exfoliating ingredients like volcanic sand that are not a threat to the environment.



Protection of endangered species

In accordance with ECOCERT/COSMOS standards MÁDARA only uses raw materials that respect the requirements of the Convention of International Trade in Endangered Species of Wild Fauna and Flora (CITES).

Kind to animals

MÁDARA does not use raw materials extracted from living or slaughtered animals. The majority of MÁDARA products are vegan. For some of the products we use ingredients that are produced by animals but are not a part of the animal, for example beeswax, lanolin. In accordance with ECOCERT/COSMOS standards these ingredients have been obtained using strictly regulated processes and they do not entail the death of the animal concerned.

SUSTAINABILITY OF STEM CELLS

Science breathes in one rhythm and heartbeat with nature. Plant stem cells are the future of the beauty industry because of various SUSTAINABILITY and EFFICACY benefits. Learn 3 interesting reasons for why this is the best go-to technology for new skin inventions.



Promotes biodiversity

- > Nearly 1 in 5 plant species found on our planet is at risk of extinction.
- > Plant cell technology allows one to obtain active ingredients from plants without harvesting the actual plants or damaging their natural habitats.



Environmentally friendly

- > Plant stem cell = clean and sustainable technology.
- > Active ingredients are not only isolated from contaminants, such as microbes and pesticides, resources of land and water, which would be required by growing plant resources physically, are also saved.



Next-gen activity

- > Applying high stress conditions to plant cells (e.g. high UV exposure) accelerates even higher production of the desired skinprotecting molecules.



2.2. SUSTAINABLE PACKAGING

Packaging sustainability has been an integral part of product design since the very first day of the Company. To minimise the direct and indirect environmental impacts of packaging during its life cycle, MÁDARA uses recyclable materials for packaging and integrates recycled materials wherever possible.



100% of our primary packaging (e.g. bottles, flacons) is made of recyclable materials (recyclable polymers or glass). In 2017, we continued to use post-consumer-recycled (PCR) plastics in the production of larger packaging volume items as shampoo and soap bottles. The proportion of post-consumer-recycled plastics in packaging production has grown by 21% compared to 2016. Products that come in larger packaging volumes (such as 200 ml, 350 ml) are usually packaged in recycled plastic packaging, preventing tonnes of new plastics being created each year.



The secondary packaging (boxes) is manufactured from sustainably produced cardboard or paper. Wherever possible boxes are not coated with a laminated layer, so as not to compromise biodegradability and recyclability.

The sustainability of both primary and secondary packaging is also regulated and monitored by ECOCERT/COSMOS standards, which requires that packaging must be reviewed against the standard at least every three years to improve environmental sustainability.

ENVIRONMENTAL SUSTAINABILITY



ECOCERT/COSMOS also specifies the list of allowed and forbidden packaging materials based on their recycling practices, environmental impact and other criteria.

> **Allowed materials in packaging:** Wood, Glass, Aluminium, PE [Polyethylene], PET [Poly(ethylene terephthalate)], PP [Polypropylene], PETG [Poly(ethylene terephthalate) glycol], Paperboard, PLA [Polylactic acid] (non GMO), any other 100% natural materials.

> **Forbidden materials in packaging:** polyvinyl chloride (PVC) and other chlorinated plastics, polystyrene and other plastics containing styrene materials or substances that contain, have been derived from, or manufactured, genetically modified organisms. It must be proven that these materials have not been used, for example by having written confirmation from the supplier.



Transportation packaging

Our transportation packaging delivers products to the consumer in the most sustainable way.

The finished products are packaged in boxes containing 4-8 pieces (inner transportation boxes). The inner transportation boxes are further packaged in master cartons, which are shipped to the destination.

Starting from June 2017, the inner transportation boxes are sourced from 100% recycled material. The inner layers of master transportation boxes are made from recycled material (approximately 50% of total box weight); the outer layer, however, is made of new material to guarantee durability during shipping.

✔ SUSTAINABILITY INITIATIVE Banishing bubbles

In 2016 MÁDARA banished bubble wrap used for product shipping. Instead we use special equipment that presses and shapes reclaimed paper or cardboard, so that it can be used as wrapping and shock-absorbing packaging material.



2.3. SUSTAINABLE MANUFACTURING



The production process and other processes and activities of MÁDARA can be described as low energy consuming. It is important to consume as little energy as possible both from an environmental and economic perspective, therefore we strictly monitor our energy consumption. MÁDARA's energy saving policy describes clear activities and responsibilities for every employee.

Our production process consists of modern state of the art equipment. Most of our machinery is manufactured by industry-leading engineering companies, which integrate the most efficient energy solutions.

✔ SUSTAINABLY INITIATIVE A greener light

One of the energy saving projects introduced in 2017 was to replace the lighting in production and the warehouse from fluorescent lamps to LED lamps, which allows us to save approximately 35 000 kWh of electricity annually.



Direct & Indirect GHG Emissions (E1*)

GHG emissions are significant determinants of climate change and global environmental health.

In 2017, CO₂ emissions amounted to 110.378 tonnes, as a result of the combustion of 58058 m³ of gas. Direct carbon emissions can be described as low. They are generated by the heating of the MÁDARA building on Zeltīnu St., as well as steam generation for the production process.



Carbon Intensity (E2)

Carbon intensity helps to contextualise an organisation's overall efficiency – relative to revenues generated (economic return) and the performance of other companies. In 2017, CO₂ intensity per 1 euro of turnover was 0.015 kg CO₂. Production growth resulted in a 3 mg CO₂ intensity increase compared to year 2016. The indicator is still a relatively very low compared to average carbon intensity per dollar of GDP in EU. The lack of industry specific data makes further comparison difficult. We plan to further reduce carbon intensity by 10% in 2018 by optimising the production process. We plan that the increase in production amounts will not considerably increase emissions.

Direct & Indirect Energy Consumption (E3)

This metric measures the total amount of energy consumed by the Company. Energy consumption is a major contributor to climate change since the burning of non-renewable fuels generates greenhouse gases (GHGs) and causes other environmental impacts. Using energy more efficiently is essential in combating climate change.

In 2017, MÁDARA consumed 58058 m³ of gas, which amounts to 1985.704 GJ (gigajoules)**, including 33196.4 m³ of gas = 1135.384 GJ used for heating and 24861.7 m³ of gas = 850.32 GJ used for steam generation. An increase in gas consumption is attributable to a higher production level.

*Here and further in this document codes E1, E2 etc., S1, S2 etc., G1, G2 etc. refer to metrics outlined in the Nasdaq ESG REPORTING GUIDE for Nordic and Baltic countries.

**Conversion method recommended by the "Latvian Environment, Geology and Meteorology Centre": <https://www.meteo.lv/lapas/vide/gaiss/gaisa-piesarnojums/metodologija-emisiju-gaisa-aprekinasanai/metodologija-emisiju-gaisa-aprekinasanai?id=1028&nid=516>

ENVIRONMENTAL SUSTAINABILITY

Energy Intensity (E4)

Energy intensity expresses the energy required per unit of activity, output, or any other organisation-specific metric. In 2017, MADARA's energy intensity was 1177 kJ (kilojoules) per 1 product manufactured, which is 1040 kJ lower when compared to the estimate for 2016 that has been adjusted to depict energy consumed and products manufactured only in the new production plant.

Primary Energy Source (E5)

This identifies the most prevalent energy production source purchased or consumed by the company (coal, natural gas, nuclear, solar, wind, hydropower, etc.) The use of non-renewable fuels generates greenhouse gases (GHG) and causes other environmental impacts. Use of renewable energy sources is essential in combating climate change.

Our primary energy source is gas which is non-renewable, followed by electricity, which partly comes from renewable sources. Burning natural gas for energy results in fewer emissions of nearly all types of air pollutants and carbon dioxide (CO₂) per unit of heat produced compared to coal or petroleum products. In fact, natural gas power plants produce no particulate matter (PM), ashes or slag that is an especially important factor in the urban environment.

Renewable Energy Intensity (E6)

MÁDARA receives electricity from a centralised energy supplier's network. According to the latest data from the Ministry of Economics of Latvia, 38% of electricity is generated by hydropower which is a renewable source, 41 % of electricity is produced by gas combustion, 17% of electricity is imported, 4 % are other renewable sources (wind energy and others). In the autumn of 2017, Madara Cosmetics received the POWERED BY GREEN certificate and fully switched to 100% green energy produced in Latvia. Overall, it can be concluded that during 2017, 60% of the consumed electricity came from renewable sources.

Water Management (E7)

Clean waters are an essential part of environmental sustainability, therefore MÁDARA takes care to reduce wastewater pollution and optimise the consumption of water in the manufacturing process.

MÁDARA uses water for 3 main purposes:

1. Highly purified water as a product ingredient
2. Water for manufacturing and cleansing/hygiene processes
3. Other water use (including offices)

Total amount of water consumed by the enterprise in 2017 – 2792 m³.

The majority of the total water demand is used for manufacturing and cleansing/hygiene processes. MÁDARA mainly ensures the cleanliness of wastewater by using natural and easily biodegradable product ingredients and by having strict requirements for cleansing and disinfecting agents. With wastewater and rainwater pollution monitoring procedures in place, MÁDARA returns the water to the water cycle with the minimal level of pollutants, which can easily be handled by the municipality's cleansing systems.

✓ ECO-FRIENDLY CLEANING AND HYGIENE

MÁDARA uses the following cleansing and disinfection agents: natural plant alcohol, natural plant based surfactants, iso-propyl alcohol, amphoteric surfactants, hydrogen peroxide. All cleansing and disinfection agents used must be verified by the ECOCERT/COSMOS auditing body.



ENVIRONMENTAL SUSTAINABILITY



Saving water

A considerable amount of water is needed to ensure cooling of the manufacturing equipment during the production process. MÁDARA has dramatically optimised the amount of water required for cooling by installing a chilling system, which allows the reuse of water. Cooling water travels from the production unit to the chilling loop and back, saving precious clean water.

✔ REINFORCING RECYCLING

To promote the practice of sorting and recycling among skincare consumers, MÁDARA accepts empty product packaging at our brand stores in Riga, offering a discount for every packaging item brought back to the store. The returned packaging is then sent to a recycling company Cemex which later uses it as an ingredient for the production of clinker.

Waste generated in 2017:

Waste type	tonnes
Everyday waste (general waste generated by manufacturing and the office)	25
Paper and cardboard (packaging materials, office paper)	9
Plastic packaging (ingredient drums etc.)	3.8
Specific laboratory and production reaction waste	3

Waste Management (E8)

MÁDARA sorts cardboard, paper, plastic and other waste materials, sending them to specialised recycling companies, which ensure recycling of the materials whenever possible.

Sustainability initiative:

Another notable initiative of 2018 is the acquisition of a cardboard press machine. Not only will the factory surrounding look visually more appealing after the current 12 containers are replaced by 1 cardboard disposal unit, the waste transportation will happen quarter as often. Hence, transportation will be utilized more efficiently as well.



PART 3

SOCIAL RESPONSIBILITY

SKINCARE FOR HUMANITY



3.1. FOUNDATIONS OF SOCIAL RESPONSIBILITY

Social responsibility is an integral part of MÁDARA's values and purpose. Our social responsibility is based on four foundation pillars.

1 First, we work with organic and natural ingredients, delivering effective beauty solutions without compromising on health or the environmental safety of the raw materials, products or processes. Thus we help to minimise the health risks associated with increased exposure to consumer chemicals and help to limit environmental pollution, which influences larger groups of the population.

2 Second, respecting differences, promoting openness and equality is an integral part of our corporate mindset, business code of conduct and our communication with the public. There is gender diversity among MÁDARA employees and the board members, practically no gender pay gap, a lean organisation structure, open communication with consumers and the public, for instance the open factory.

✓ OPEN FACTORY FOR EVERYONE

Openness and transparency are very important values at MÁDARA, therefore our factory is built with transparent production rooms and is open to the general public – consumers, community, children, students and other groups. During working hours the factory welcomes visitors: offering guided tours and workshops, creating a place where everyone can see and experience how organic and natural ingredients are being refined into luxurious cosmetic textures.

3 Third, the MÁDARA fair pricing principle defines that a product price shall reflect all true costs of product manufacturing, without transferring them to “third world” countries where they might compromise workplace safety, social welfare and the environmental future of local societies. All MÁDARA products are produced in our factory in Latvia in fair and safe working conditions. When choosing suppliers, priority is given to local suppliers. A major part of ingredients are sourced from organic farming, which can be described as more ethical and sustainable. There are more than 20 suppliers for MÁDARA products' packaging, where two thirds of the suppliers are located in EU countries.

4 Fourth, we recognise that issues in society arising from inequality and discrimination are complex and widespread, therefore MÁDARA collaborates with organisations and experts that work to make our society safer and better. For instance, MÁDARA is a continuous contributor to the Latvian NGO MARTA Centre. MARTA Centre works with issues of human trafficking and domestic violence on multiple levels - initiating systematic and legislative improvements, organising preventive educational work with school-age children as well as providing free of charge legal, psychological and other services to victims of domestic violence and human trafficking. MARTA Centre also works with partner organisations in Finland, Turkey and countries in Central Asia, transferring best practices and initiating positive improvements in gender equality, domestic safety, and the prevention of trafficking.



MÁDARA x MARTA x YOU 2017



20'000 €

total donation amount



10'182 €

regular support team sessions for Latvian children and youth



9'818 €

donation for the social rehabilitation

NO TO VIOLENCE AGAINST CHILDREN



83%

go through experience that they should not

- child neglect
- emotional violence
- physical violence
- sexual violence

NO TO VIOLENCE AGAINST WOMEN



1 IN 3 WOMEN

in the EU during their lives have suffered from physical, sexual or emotional violence



During the year we have helped around

200 children and youth

365 CONSULTATIONS FOR

#METOO / #ESARĪ victims in Latvia

Help from lawyers and psychologists



18 BOYS AND MIXED GROUPS

across Latvia

365

THAT IS 1 CONSULTATION PER DAY



1 SUMMER CAMP

to strengthen nonviolent communication between youth

OUR COLLECTIVE NO TO BROKEN LIVES



3.2. EQUALITY AND HUMANITY

The core purpose of MÁDARA is linked to the powerful concept of benefiting humanity and equality. We live and promote the values of humanity and equality throughout: producing safe and sustainable products, devising safe and natural beauty solutions, creating safe and fair working conditions, sustainable supply chain, opening up our factory to the general public, pursuing a transparent and ethical business practice. Every morning we wake up and come to work to create a better world – product by product, process by process, innovation by innovation.

Non-discrimination policy (S6)

Madara Cosmetics (the Company) aims at fostering respect and equality within the society members. It is a diverse and international community that is related to the Company. Individuals of different cultures, values, national origin, race, colour, gender, marital status, sexual orientation, political opinion are a part of our community. There are two pillars of non-discrimination concept that the Company adheres to: respect and social inclusion.

Respect – The Company members share a mutual respect in their interactions and encounters. We abide by cultural norms and laws dictated by the markets where we are present. Even if the personal beliefs and viewpoints do not correspond, it is of our responsibility to embrace the viewpoint of others with grace and understanding.

Social inclusion – People of different viewpoints and backgrounds are welcomed in our company. Bias, prejudice and racism have no place in our company and community. We urge our employees to treat clients, partners and fellow employees in the same way regardless of their socio-economic status, national origin, gender, or sexual orientation,

Human rights policy

Respect for human rights is at the core of Madara Cosmetics (the Company). The business at the Company is conducted in a manner that respects the rights of all parties involved, complying with all legal requirements. This policy applies to every employee of the Company and is built on the following commitments:

Diversity and inclusion – we value the diversity of the employees at the Company. Discrimination of any sort is discouraged and forbidden (see more in Non-discrimination policy). We do not tolerate disrespectful or inappropriate behaviour, unfair treatment. Harassment is not tolerated in the workplace and in any work-related circumstance outside the workplace.

Freedom of Collective bargaining – We do not restrict our employees from joining labour unions.

Safety of the workforce – We aspire to provide an injury-free and healthy workplace and comply with applicable safety and health laws and regulations, as well as internal requirements. Together with employees, we are constantly improving the safety measures in our company by identifying the risks and educating our employees.

Forced and Child Labour – Forced labour, including prison labour, indentured labour and any forms of slavery are forbidden in the Company. Employment in our company is possible only on the voluntary grounds under no threat of penalty or sanction. In addition, children under 18 years are not allowed to be hired for work in hazardous positions. We also make the terms and conditions of employment available to all employees before their employment is started.

Work Hours, Salaries and Benefits – Employees of our company receive competitive wages relative to the industry and specifics of the local labour market. We comply with applicable wage, work and overtime hours and benefits laws.

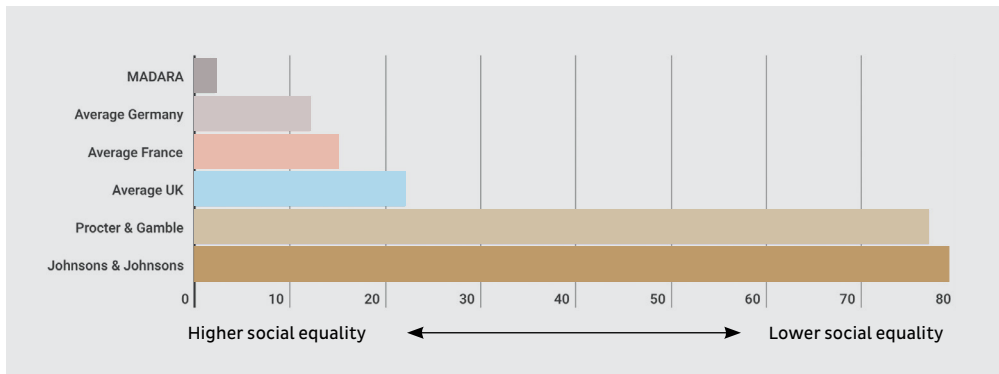
3.3. EQUALITY IN FIGURES

CEO Pay Ratio (S1)

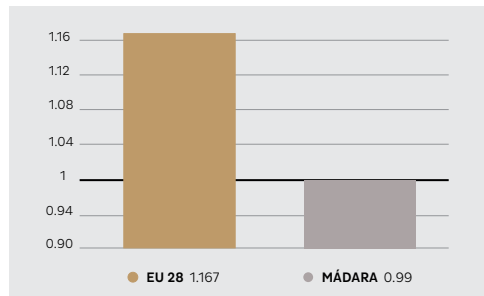
This ratio illustrates the company's costs for the Chief Executive as compared to average employee costs. Reporting on remuneration can show an organisation's

commitment to improving social equality. The lower the CEO pay ratio, the smaller the CEO-employee pay gap and higher social equality. CEO Pay Ratio MÁDARA Cosmetics: 1.68 to 1.

CEO Pay Ratio



Average for MÁDARA – 0.99
thus women earn slightly more than men



Gender Pay Ratio (S2)

Gender Pay Ratio measures the remunerative scope and impact of the gender pay gap within the company. Ratio: Median Male Salary to Median Female Salary. The gender pay gap reflects ongoing discrimination and inequalities in the labour market which, in practice, mainly affect women. The average gender pay gap in the EU is 16.2%, while women in managerial positions in the EU on average earn 23.4% less than men. With a gender pay ratio of 1.09, remuneration distribution in MÁDARA is more equal compared to the EU index. Contrary to the EU statistics, women in MÁDARA managerial roles earn roughly 20% more than men.

Executive positions MÁDARA –

1.21 men earn slightly more than women

Manager positions MÁDARA –

0.83 women earn slightly more than men

Specialist positions MÁDARA –

1.32 women earn slightly more than men

MÁDARA production and warehouse employees –

1.52 men earn slightly more than women

Sources:

<http://work.chron.com/ceo-compensation-vs-world-15509.html>

<http://www.payscale.com/data-packages/ceo-pay>

http://ec.europa.eu/justice/gender-equality/files/gender_pay_gap/2016/gpg_eu_factsheet_2016_en.pdf

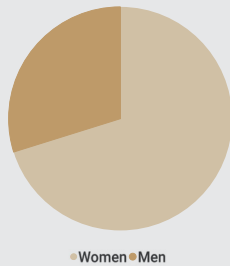
<http://ec.europa.eu/eurostat/documents/2995521/7896990/3-06032017-AP-EN.pdf/ba0b2ea3-f9ee-4561-8bb8-e6c803c24081>

SOCIAL RESPONSIBILITY

Gender Diversity ratio (S4)

The percentage of female full-time employees; this ratio can indicate risks related to workplace inequality.

Female employees MÁDARA Women: 72.22%



Employee Turnover Ratio (S3)

The relative percentage of employees who leave the organisation voluntarily or due to dismissal, retirement, or death in service. A high rate of employee turnover can indicate levels of uncertainty and dissatisfaction among employees, or may signal a fundamental change in the structure of the organisation's core operations. Turnover has direct cost and value implications either in terms of reduced payroll or greater expenses for the recruitment of workers.

MÁDARA Employee Turnover Ratio in 2017 stood at 2.33%, which is 6.5pp lower compared to 2016 and can be considered as relatively low.

Human Rights Violations (S11)

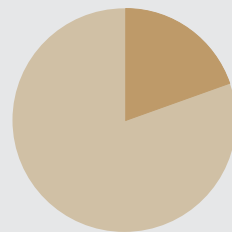
The number of grievances or judgments regarding human rights impacts during the reporting period - 0

Please refer to the Corporate Governance section for more information.

Temporary Worker Ratio (S5)

This ratio offers an indication of job stability and the level of benefits the organisation offers. Percentage of Full-Time Positions Held by Part-Time/ Contract/Temp Workers. With 86.75% of the workforce on full-time contracts, MÁDARA contributes to the social stability and security of employees. In fact, the share of full-time employees has risen by roughly 7pp compared to the previous year.

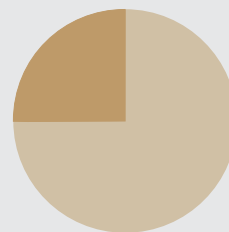
Temporary Worker Ratio MÁDARA



● Part-time employees 13.25%
● Full time employees 86.75%

The proportion of full-time MADARA employees has increased by 6.75pp in comparison with 2016.

Board - Diversity MÁDARA (S12)



● Men 25%
● Women 75%

3.4. HEALTH & SAFETY AT MÁDARA

Creating a safe working environment and caring for the health of our employees is one of the main focuses of human resource management at MÁDARA.



Health and safety of the workforce is regulated by the legislation of the Republic of Latvia; MÁDARA respects all regulations and norms and has implemented a health and safety policy.

There is a special position at MÁDARA called a Safety Officer, which has responsibility for ensuring that both the employer and employees comply with safety legislation as well as that the health and safety policies are adhered to.

MÁDARA has entered into a contract with a health and safety advisory and training company to ensure double control of all issues related to health and safety.



Safety of the workforce:

- > There is a risk assessment for each job position of the company. Based on these risks a personalised instruction is created in order to define the equipment standards and protection tools if needed (e.g. specialised shoes, helmet etc.). MÁDARA provides employees with all of the protection tools needed and organises regular checks of how employees comply with the health and safety policy.
- > Each employee has been informed about the health and safety policy and trained before he/she commences work.
- > MÁDARA organises centralised health and safety training once a quarter.
- > Special permits.

In the case of work in increased risk areas or work with specialised equipment (e.g. warehouse loader), special training is organised. Only those employees who have been trained and have obtained a special permit can work with specialised equipment or work in increased risk areas. Additionally, to ensure the safety of the employees and company visitors, walking areas in the factory and warehouse have been marked with a safety ribbon.

SOCIAL RESPONSIBILITY

Fire safety

- > There are fire evacuation plans in the MÁDARA building at 131 Zeltīnu Street, Marupe, Latvia.
- > Each employee has been informed about fire safety and undergone training before the commencement of work.
- > MÁDARA organises a centralised fire evacuation exercise once per year.

Health of the workforce

Mandatory Health Examinations are organised by MÁDARA once per year in order to guarantee each employee easy access to doctors as well as ensure that all employees fulfil the mandatory health examination. MÁDARA also offers employees health insurance that covers the costs of medical services according to the insurance programme.

Injury Rate (S7)

Total number of injuries and fatalities relative to the total workforce: 0

Low injury and absentee rates are generally linked to positive trends in staff morale and productivity.





TIME MIRACLE

CELLULAR
REPAIR
SERUM

MÁDARA
organic skincare

PART 4

**CORPORATE
GOVERNANCE**

CORPORATE GOVERNANCE

Board – Separation of Powers (G1)

The Company has a two-tier management structure comprising of the Management Board and the Supervisory Board. While the Management Board has responsibility for everyday management, the Supervisory Board represents shareholder interests in General Meetings and oversees the activities of the Management Board.

MANAGEMENT BOARD

Name	Function	Involved in executive activities of the company
Ms Lote Tisenkopfa Iltnerē	Chairman	YES
Mr Uldis Iltners	Member of the Board	YES
Ms Paula Tisenkopfa	Member of the Board	YES



Uldis Iltners.

Mr Iltners, born in 1983, is a member of the Company's Management Board and the Acting Chairman of the Managing Board while Ms Tisenkopfa-Iltnerē, the wife of Mr Iltners, is on maternity leave. He is the Chief Executive Officer of the Group. Mr Iltners graduated from the BA School of Business and Finance in 2003 with a

bachelor's degree in business management and leadership. Before co-founding the Group in 2006, he worked as a private entrepreneur, for instance as CEO and analyst at an IT consulting service providing computer simulation assisted production controlling and optimisation for manufacturing companies. He does not hold any positions or perform any activities outside the Group that are significant with respect to the Group.

Board -Transparent Practices (G2)

The Management Board has the duty to submit a report on the activities and financial position of the Company that is open to the public once every 6 months. The report shall include the financial performance of the Company for the past 6 months as well as describe the recent outcomes of Management board activities and outline future strategies for development.



Lotte Tisenkopfa-Iltnerē.

Ms Tisenkopfa-Iltnerē, born in 1982, is the Chairman of the Company's Management Board, currently substituted by Acting Chairman Mr Uldis Iltners, while on maternity leave. Ms Tisenkopfa-Iltnerē graduated from the University of Latvia in 2005 with a bachelor's degree in Asian studies, where she mastered Asian culture, business and

the Japanese language. Co-founded the Group in 2006. In 2009 Ms Tisenkopfa-Iltnerē completed the Swedish Institute Management programme of leadership and corporate social responsibility practices. Since 2016, has worked as a volunteer for MARTA Centre, an NGO that works with issues relating to victims of domestic violence and human trafficking. Apart from her volunteer work, she does not hold any positions or perform any activities outside the Group that are significant with respect to the Group.



Paula Tisenkopfa

Ms Tisenkopfa, born in 1988, is a member of the Company's Management Board. Ms Tisenkopfa continues her studies in the University of Latvia, bachelor's programme of philosophy. Co-founded the Group in 2006 and since then she has been actively involved in sales and export expansion, as well as product and brand

development. Currently Ms Tisenkopfa is the deputy director, whose main areas are human resources and cooperate governance matters. She does not hold any positions or perform any activities outside the Group that are significant with respect to the Group.

CORPORATE GOVERNANCE

SUPERVISORY BOARD

Name	Function	Time period	Involved in executive activities of the company
Zane Tamane	Chairman of the Council	24.08.2017-present	No
Liene Drāzniece	Deputy Chairman of the Council	11.01.2017-22.05.2018	No
Anna Ramata Stunda	Member of the Council	24.08.2017-present	No
Anna Andersone	Member of the Council	24.08.2017-present	No
Solvita Kurtiša	Member of the Council	24.08.2017-present	No
Paula Tisenkopfa	Member of the Council	11.0.2017-23.08.2017	Yes
Anu Pauliina Koskinen	Member of the Council	22.05.2018-present	No



Zane Tamane

After graduating from the Stockholm School of Economics in Riga, Ms Tamane has pursued a brand strategist career in 2 international advertising agencies – McCann and Lowe. Having a deep insight into brand strategy and interest in creating meaningful content, Ms Tamane is strong about cultivating a passion for eco-products across the globe.



Liene Drāzniece

Liene has received a degree in Visual Communication from the Latvian Academy of Art and later Design Direction specialization from the Istituto Marangoni Milano. Ms Drāzniece has spent years working as an art director for major Latvian brands. She is also the author of several brand identities for consumer goods and niche products.



Anu Pauliina Koskinen

Anu has kickstarted her career as a Product Specialist in Procter & Gamble, later joining L'Oréal and climbing the career ladder up to the Luxury Brand Sales Director and Marketing Manager positions. In recent years, Ms Koskinen has worked as a Skincare Business Director in LUMENE. From 2016, she has been the Director of the Cosmetics Division at Oy Transmeri Ab.



Anna Andersone

Ms Andersone, a graduate of the Stockholm School of Economics in Riga, has worked as a Project Director and Strategist for the Baltic and international market. She has co-founded online-based service start-up companies “be-with”, The Mill, Froot, “berta.me”. Some of the management positions that Anna holds include SIA HungryLab, NGO Tech-Hub Ria, SIA Hello World and others.



Anna Ramata-Stunda

Since 2010, Ms Ramata-Stunda has worked as a researcher and in 2016 also became a lecturer at the University of Latvia. Currently Anna is a PhD Candidate in Biotechnology at the University of Latvia, a member of the Latvian Association of Microbiologist and a co-founder of two biotechnology companies – SIA InCell and SIA Alternative Plants. A number of scientific publications and cutting-edge patents in biotech are also on her list.



Solvita Kurtiša

Ms Kurtiša holds a Master's degree in Economics from the Latvian University of Agriculture. She has worked as a Financial Director in AS Infrastructure Investments, later joining management teams in SIA Brīvzemnieka nams, SIA Inin 7, SIA Priminvest and others.

CORPORATE GOVERNANCE

Incentivised Pay (G3)

Currently, the Management Board is not incentivised to execute a long-term ESG strategy. Nevertheless, it is a part of every employee's duties and day-to-day activities to work in accordance with the environmental, social and corporate governance guidelines stated in this report.

Fair Labour Practices (G4)

The employees of the Company are not part of any collective organisations of workers, but the policy of the Company is to encourage employees to be open about how they see the Company could improve its everyday activities and thus the everyday work-life of its employees.

The Company ensures that both the physical and emotional work environment of the employees meets the requirements of Latvian legislation, promotes productivity and that each employee can fulfil their professional potential.

All employees are regularly instructed about fire safety and general work safety. In addition, with certain regularity everyone is required to perform a compulsory health check. All necessary protective clothing, equipment and tools are provided to the employees to perform their work in a safe and sustainable manner.

The employees are encouraged to express their opinion about various topics relevant to the Company as well as their overall satisfaction with their work. A survey is conducted annually and the results are summarised and presented to

the executive team to discuss the necessary improvements. In addition, it is communicated to the employees that they can approach any of the members of the executive team in order to discuss both Company matters and their specific position in the Company.

The Company receives many applications for most of the positions, which indicates that the Company is a desirable work place. It was also named the 2nd most reputable company in Latvia, 2017.

In 2017, the number of employees has grown by roughly 22%. Eight new employees have joined the Company during the last 6 months. Two of the employees have changed their position within the Company during the past 8 months, and have gained the opportunity to learn new skills and acquire new knowledge within the same Company, but a different field.

Fair labour practices are applied in the hiring process, horizontal and vertical promotion process as well as everyday work-life, giving all of the employees the opportunity to fulfil their work targets. As of the beginning of 2017, each employee receives a personal sheet of the key performance indicators that they are evaluated on and quarterly aims that need to be fulfilled, as well as the tools available for achieving them. This gives a transparent overview of what is expected of the employee and how they can reach it. The results are then summarised and discussed to evaluate past performance and draw up the plan for the next quarter.







CORPORATE GOVERNANCE

Supplier Code of Conduct (G5)

Madara Cosmetics (the Company) has a strong position with regard to its suppliers. We strive to ensure responsible supplier relationship by integrating environmental, social and ethical standards. The relationship is maintained via a constructive dialogue. The Supplier Code of Conduct (the Code) dictates the requirements for suppliers in terms of their responsible business conduct. At minimum, we expect that our suppliers comply with the national regulations and meet the requirements of the Code. The Company expects suppliers to follow the requirements listed below:

Labour and human rights

1. The supplier does not discriminate on the basis of national origin, race, colour, gender, sexual orientation, marital status, political opinion and disability.
2. The supplier provides its employees with working conditions, hours, wages and leave in accordance with local regulations and industry.
3. Personal information of employees is gathered and stored respecting employees right to privacy.
4. The supplier prohibits forced labour practices including prison labour, indentured labour or any forms of slavery.
5. The supplier prohibits child labour practices in the company that could damage children's physical or mental health or prevents them from attending school.

Health and safety

1. The supplier ensures healthy and safe working conditions, takes preventive measures to minimize the risk of work-related accidents and injuries.

Environment

1. The supplier complies with the local environmental law in a systematic manner.
2. The supplier has a written environmental policy that is relevant to its type of operation and size.
3. The supplier complies with Madara Cosmetics' environmental guidelines and requirements.

Business integrity and operations

1. The supplier complies with all applicable laws and regulations concerning bribery, corruption, fraud, intellectual property rights and competition.
2. The supplier provides a complaint mechanism for managers, workers and communities to report workplace complaints.
3. The supplier acts according to written or verbal agreements and it has sufficient financial resources to deliver what is required.
4. The supplier keeps the quality standard of the product/service and minimizes the risk of a faulty product.
5. The supplier ensures that the resources allocated for purchasing products/services are used efficiently and generate the most value.
6. The supplier seeks to ensure that everyday communication is clear and problem-solving is solution driven.



Ethics – Code of Conduct (G6)

Every employee has been introduced to the values and inner culture of the Company and is expected to follow these guidelines. The values of humanity and equality embody respect, openness, friendliness and honesty among each other, which can also be considered as the ethical code of conduct of the Company. These values apply not only inside the Company, but also to outside communication and partnerships.

Anti-bribery and anti-corruption policy (G7)

Introduction

This is the policy of MADARA Cosmetics (the Company) to comply with all applicable anti-bribery and anti-corruption laws. This Policy also exists to act as a source of information and guidance for those working for the Company. It helps employees recognize and deal with bribery and corruption issues, as well as understand their responsibilities. Bribery is defined as an act of offering, giving, promising, asking, agreeing, receiving, accepting, or soliciting something of value or of an advantage so to induce or influence an action or decision. Bribery is not limited to the act of offering a bribe. If an individual is on the receiving end of a bribe and they accept it, they are also in breach of this policy.

The most prevalent forms of bribery and corruption stem from:

1. Payments to a company's employees or their relatives, or to a third party, to secure an advantage in business transactions.
2. Political contributions made to secure an advantage in business transactions.

CORPORATE GOVERNANCE

3. Charitable sponsorships used to secure an advantage in business transactions.
4. Gifts, hospitality and expenses payments made to secure an advantage in business transactions.

Purpose

The sole purpose of this anti-bribery policy is to set out the responsibilities of the Company and those who work for us in regard to observing and upholding our zero-tolerance position on bribery and corruption.

Scope

This policy is applicable to employees, related personnel (spouse, children, etc.) of the Company and third parties acting on behalf of the Company and is valid to all business dealings and all jurisdictions where the Company operates.

How does one to identify a bribe?

When in doubt, the following questions can be asked:

1. am I being asked to pay something/provide any other benefit over and above the cost of the services being performed?
2. am I being asked to make a payment for services to someone other than the service provider?
3. are the hospitality or gifts I am giving or receiving reasonable and justified? Would I be embarrassed to disclose them?
4. when a payment/other benefit is being offered or received, do I know or suspect it is to induce or reward favourable treatment, to undermine an impartial decision-making process or to persuade someone to do something that would be regarded the proper performance of their job?

Policy

The Company does not engage in bribery or corruption. It is contrary to the Company's policy for any employee or third party to request, offer, solicit, make or receive any payments or inducements which are illegal, unethical or represent a breach of trust. A bribe does not actually have to take place - just promising to give a bribe or agreeing to receive one is prohibited. The Company does not make direct or indirect contributions to political parties.

It is acceptable to receive gestures of hospitality and goodwill as long as the giving or receiving of gifts meets the following criteria:

1. It is not made with the intention of influencing the party to whom it is being given to obtain a business advantage.
2. It is not made with the suggestion that a return favour is expected.
3. It is in compliance with the local law.
4. It is given in the name of the company, not in an individual's name.
5. It does not include cash.

6. It is not selectively given to a key, influential person, clearly with the intention of directly influencing them.
7. It is appropriate for the circumstances (e.g. giving small gifts around Christmas or as a small thank you to a company for helping with a large project upon completion).

The Company does not accept and will not make any form of facilitation payments of any nature. We recognise that facilitation payments are a form of bribery that involves expediting or facilitating the performance of a public official for a routine governmental action. The Company will not make donations to support any political parties or candidates.

All employees are equally responsible for the prevention, detection, and reporting of bribery and other forms of corruption. They are required to avoid any activities that could lead to, or imply, a breach of this anti-bribery policy. If any employee breaches this policy, they will face disciplinary action and could face termination for gross misconduct. The Company has the right to terminate any employee if they breach this anti-bribery policy. Compliance with this policy is mandatory for all employees. Failure to observe the terms of this policy may constitute a disciplinary offence, dismissal from employment and may expose individuals to civil or criminal proceedings.

Tax transparency (G8)

MÁDARA pays taxes according to the legislation of the Republic of Latvia. Social security contributions and Personal income taxes comprise the major part of the taxes paid in 2016, followed by Corporate income Tax, Natural Resources Tax and other taxes. The overview of taxes paid by the company is available on the State Revenue Service's public database. Also, the Company has no long-term tax debts to the State Revenue Service.

Sustainability Report (G9)

n/a

Other Framework Disclosures (G10)

n/a

External Validation & Assurance (G11)

The Company is audited by independent organisations, which check several of the criteria mentioned in the ESG report. One such organisation is ECOCERT, covering the audit for the sustainability of manufacturing practices and raw materials that are used in product manufacturing. Another organisation – Bureau Veritas Latvia SIA, performs auditing of all of the quality aspects of the product, including traceability, the manufacturing process and storage according to the ISO 22716:2007 standard.

The Financial Statements (including the consolidated financial statements of the Group for the financial years ended on 31 December 2016 and 31 December 2017) have been audited by Deloitte Audits Latvia SIA.



Period of reporting: January-December 2017
Published: September 2018

MADARA COSMETICS AS

2018