



MÁDARA

organic skincare

ESG

ENVIRONMENTAL
SUSTAINABILITY,
SOCIAL RESPONSIBILITY
AND CORPORATE
GOVERNANCE REPORT

TABLE OF CONTENTS

A message from the founder	1
PART 1	
ENVIRONMENTAL SUSTAINABILITY	3
A closer look at organic certification	5
1.1. Sustainable Ingredients	6
1.2. Sustainable Packaging	7
1.3. Sustainable Manufacturing	9
PART 2	
SOCIAL RESPONSIBILITY	12
2.1. Foundations of social responsibility	13
2.2. Equality in figures	16
2.3. Health & Safety at MÁDARA	18
PART 3	
CORPORATE GOVERNANCE	20

DEEPER THAN SKIN

A MESSAGE FROM THE FOUNDER



-Lotte Tisenkopfa-Iltner, Founder of MÁDARA

The best skincare is the kind of care that goes deeper than the skin, not just to make us look good, but to make us feel better inside. It is care for our wellbeing and self-appreciation, care about the choices we make and the footprint we leave.

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.

This report aims to provide a deeper insight in the environmental, social and corporate governance practices at AS MADARA Cosmetics (further in the document referred to as MÁDARA). 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

Period of reporting: January-December 2016



ESG PERFORMANCE AT A GLANCE

97% ORGANIC

97% of plant-based ingredients being certified organic



MÁDARA products are certified by ECOCERT according to the international ECOCERT/COSMOS standards which define and supervise ingredient sourcing, packaging and manufacturing processes.



100% RECYCLABLE PACKAGING

100% of our primary packaging (e.g. bottles, flacons) is made of recyclable materials.



EVERY THIRD - POST-CONSUMER RECYCLED PACKAGING

In 2016, more than one third of our plastic packaging (36%) was produced from post-consumer-recycled plastics.



ENERGY EFFICIENT MANUFACTURING 1 PRODUCT=971 kJ

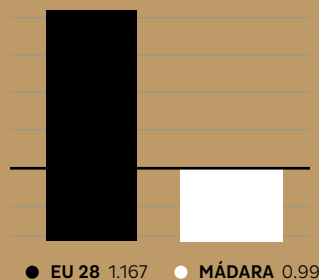
In 2016 MÁDARA energy intensity was 971 kJ (kilojoules) per 1 product manufactured, which equals the nutritional value of 2 large bananas.

LOW CO₂ EMISSION

67 tons in 2016

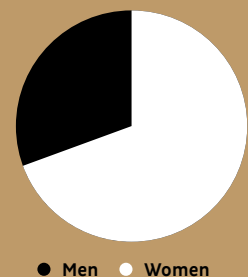


EQUAL GENDER PAY RATIO



GENDER DIVERSITY RATIO

Female employees MÁDARA
Women: 76.92%



HELPING THE COMMUNITY

Our contribution to NGO MARTA in 2016 provided **555 FREE** of charge legal or psychological consultation sessions for victims of human trafficking and domestic violence, mostly women and children.

EXTERNAL VALIDATION

The Company is audited by independent organizations



PART 1

ENVIRONMENTAL SUSTAINABILITY

We enjoy the shade of the tree we didn't plant



Thrice named the No. 1 greenest and most sustainable enterprise in Latvia by Green Dot, 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.

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 97% of plant-based ingredients 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 GMO 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.

A CLOSER LOOK AT ORGANIC CERTIFICATION

MÁDARA products are certified by ECOCERT/COSMOS logotypes, 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.

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 is 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.



1.1. 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

Cosmetics producers use thousands of ingredients and a large number of these raw-materials are of chemical origin. 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. For example parabens, the common group of preservatives used in most beauty products, bind to oestrogen receptors, thus interfering with the endocrine (hormonal) system. Very low concentrations of parabens are needed to evoke a biochemical response. In 2011, the Danish government decided to ban the use of some parabens in personal care products intended for children, as children might be especially vulnerable to hormone-like effects. Following Denmark's initiative, the European Commission has amended Annex II of the EU cosmetic Regulation, adding five types of parabens to the list of substances prohibited in cosmetic products.

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 contam-

inants 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 systematically 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, 97% of MÁDARA plant ingredients 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.

¹Claudia Fruijtier-Pölloth, Safety assessment on polyethylene glycols (PEGs) and their derivatives as used in cosmetic products, Toxicology, Volume 214, Issues 1–2, 15 October 2005, Pages 1–38, ISSN 0300–483X, <http://dx.doi.org/10.1016/j.tox.2005.06.001>. (<http://www.sciencedirect.com/science/article/pii/S0300483X05002696>)



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.

1.2. 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 2016, more than one third of our plastic packaging (36%) was produced from post-consumer-recycled plastics. 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.





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.

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 using, genetically modified organisms. It must be proven that these materials have not been used, for example by having written confirmation from the supplier.

✓ 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.



1.3. 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 economical 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 of 2017 is to exchange the lighting in production and the warehouse from fluorescent lamps to LED lamps, which will allow us to save approximately 30 000 kWh of electricity annually.



Direct & Indirect GHG Emissions (E1*)

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

In 2016, CO₂ emissions amounted to 67.444 tonnes, as a result of the combustion of 35460 m³ of gas.

Direct carbon emissions can be described as low. They are generated by the heating of the MÁDARA building on Zeltinu 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 2016, CO₂ intensity per 1 euro of turnover was 0.01 kg CO₂, which is a relatively very low indicator 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 2017 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 2016, MÁDARA consumed 35460 m³ of gas, which amounts to 1213.0866 GJ (gigajoules)**, including 31194.4 m³ of gas = 1067.16 GJ used for heating and 4265.6 m³ of gas = 145.926 GJ used for steam generation.

*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/gaissa-piesarnojums/metodologija-emisiju-gaissa-aprekinasanai/metodologija-emisiju-gaissa-aprekinasanai?id=1028&nid=516>

Energy Intensity (E4)

Energy intensity expresses the energy required per unit of activity, output, or any other organisation-specific metric. In 2016, MÁDARA energy intensity was 971.47 kJ (kilojoules) per 1 product manufactured.

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.

Renewable Energy Intensity (E6)

MÁDARA receives electricity from a centralised energy supplier's network. According to 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). This leads one to conclude that over 40% of consumed electricity comes from renewable resources.

**Water Management (E7)**

Clean waters are an essential part of environmental sustainability, therefore MÁDARA takes care to reduce waste-

water 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 2016 – 1403 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.





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.

Waste generated in 2016:

Waste type	tonnes
Everyday waste (general waste generated by manufacturing and the office)	17.30
Paper and cardboard (packaging materials, office paper)	5.05
Plastic packaging (ingredient drums etc.)	2.16
Specific laboratory and production reaction waste	1.00

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.



PART 2

SOCIAL RESPONSIBILITY

SKINCARE FOR HUMANITY



What motivates you to wake up and come to work in the morning? We asked this question to MÁDARA employees, and received answers, such as nice colleagues, positive challenges, creating a good product. Then we asked our loyal customers about what motivates them to buy MÁDARA and found that they appreciate the natural origin of ingredients, or they simply just have a feeling that it is a good product. A deeper analysis of the answers helped us to uncover the core purpose of MÁDARA - the reason WHY the organisation exists.

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.

2.1. FOUNDATIONS OF SOCIAL RESPONSIBILITY

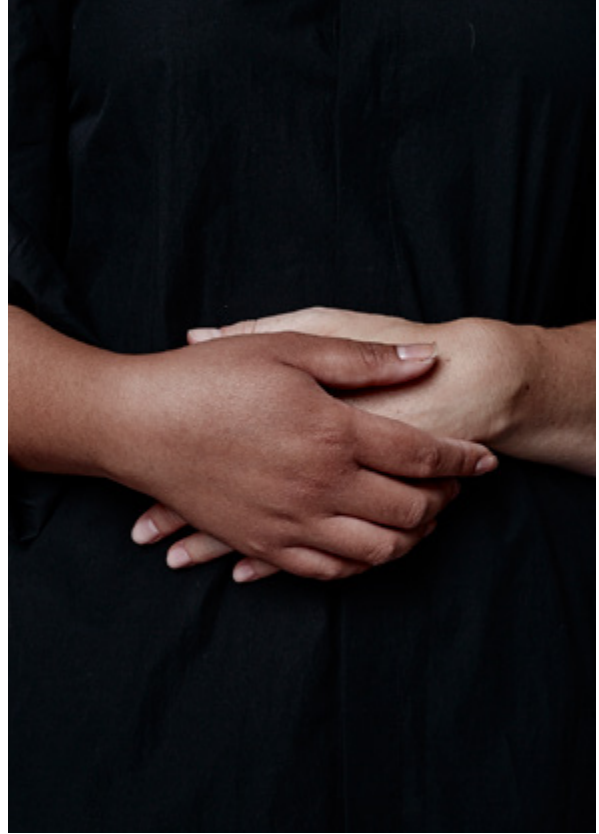
Social responsibility is an integral part of MÁDARA's values and purpose. Our social responsibility is based on four foundation pillars.

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 Center. MARTA Center 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 Center 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.



✓ CORPORATE SOCIAL RESPONSIBILITY

Our contribution to NGO MARTA in 2016 granted **555 FREE** of charge legal or psychological consultation sessions for victims of human trafficking and domestic violence, mostly women and children.



✓ CSR initiative 2017 –

Sales campaigns for a happier childhood
Statistics show that only 16%* of children in Latvia have never experienced violence – either emotional, physical or sexual. In 2017 MÁDARA launched two 24h sales campaigns, donating 1 EUR from every purchase to a children’s support programme, implemented by MARTA Center.



*Republic of Latvia, Ministry of Welfare

FOUNDER LOTTE'S STORY

Why do I volunteer?

Being an entrepreneur since the age of 22, I constantly meet people from across many industries: journalists, businesswomen and men, experts, engineers, bloggers, bankers, models, designers, trend-setters, politicians. They are strong personalities with drive, courage, vision and values. Inspired by one such personality – the human rights activist Iluta Lace, founder and leader of NGO MARTA Center, I started to work as a volunteer for an organisation that promotes human rights, gender equality and helps victims of human trafficking and violence, predominantly women and children.

There was a time when I thought that everyone could live the life and achieve what she or he wanted, it was only a question of inspiration and persistence, and that gender or background played no role. Then I realised that it is not that simple at all. The fundamental problem is that people are not blessed with equal resources. The economic,

health and educational resources are distributed unevenly across society, leading to some individuals being more predisposed to success while others are more affected by poverty, discrimination and are less able to protect themselves.

Women in Europe are still one of the largest groups suffering from inequality. Women are disproportionately affected by discrimination, the pay-gap, poverty and abuse compared to men. The average woman needs to

work 3 months longer every year to receive the same salary. One out of three women (33 %) in the European Union has experienced physical and/or sexual violence since she was 15 years old. 13 million women in the EU have experienced physical violence in the past 12 months. Countries



-Lotte Tisenkpofa-Iltner, Founder of MÁDARA

with the highest occurrence of domestic violence are Finland, Latvia and Denmark, followed by Sweden, the Netherlands, France, Germany and others (EU 28 domestic violence survey, 2014).

People at MARTA Center work passionately to provide support to victims of trafficking and violence, organise preventative and educational programmes that help to reduce violence and promote equality. MÁDARA has been a supporter of MARTA's activities for many years, and I was happy to join the NGO as a volunteer, fundraiser and advisor in 2016 and get personally involved in activities that create a more equal and happier society.



-Lotte Tisenkpofa-Iltner and Iluta Lāce

2.2. EQUALITY IN FIGURES

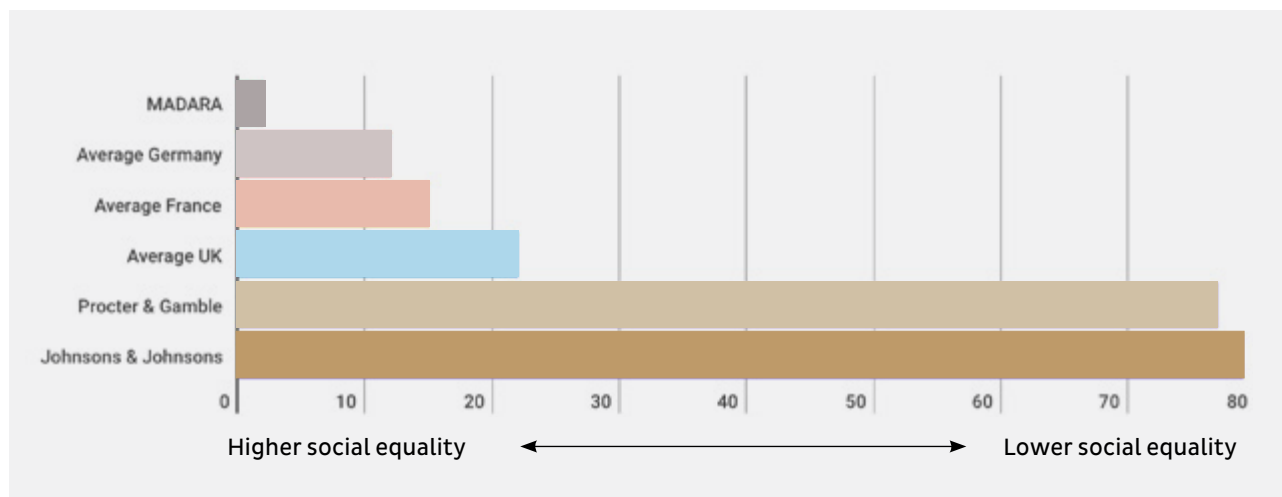
CEO Pay Ratio (S1)

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: 1.86 to 1

CEO Pay Ratio



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 16.7%, while women in managerial positions in the EU on average earn 23.4% less than men.

With a gender pay ratio of 0.99 (women earn slightly more than men) MÁDARA contributes to gender equality in the labour market.

Executive positions MÁDARA –

1.02 men earn slightly more than women

Manager positions MÁDARA –

0.96 women earn slightly more than men

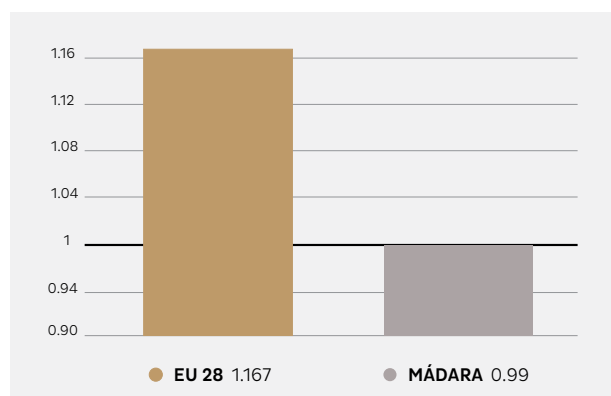
Specialist positions MÁDARA –

0.92 women earn slightly more than men

MÁDARA production and warehouse employees –

1.06 men earn slightly more than women

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



Sources:

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

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

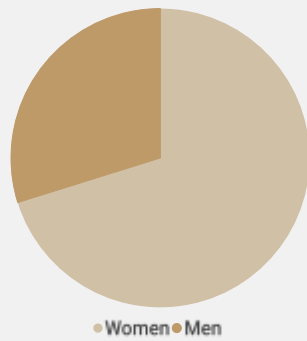
http://ec.europa.eu/justice/gender-equality/files/gender_pay_gap/2016/gpg_eu_factsheet_2016_en.pdf

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

Gender Diversity ratio (S4)

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

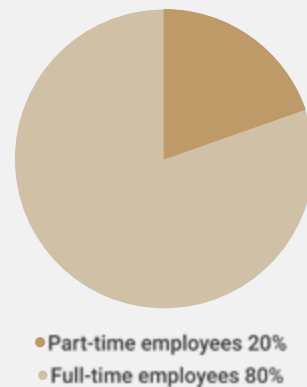
Female employees MÁDARA
Women: 76.92%



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 80% of the workforce on full-time contracts, MÁDARA contributes to the social stability and security of employees.

Temporary Worker Ratio MÁDARA



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.

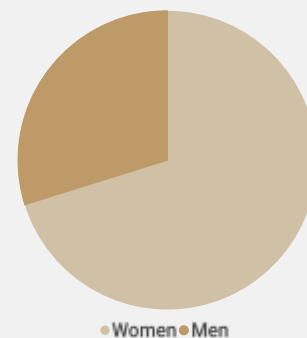
MÁDARA Employee Turnover Ratio 8.85% can be considered as relatively low.

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.

Board – Diversity MÁDARA (S12)



2.3. 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 the protection tools needed and organises regular checks of how employees comply with 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 and 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.

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.



PART 3

CORPORATE GOVERNANCE

Board – Separation of Powers (G1)

The Management board of MÁDARA Cosmetics consists of the following members:

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



Lotte Tisenkopfa-Iltnere.

Ms Tisenkopfa-Iltnere, 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-Iltnere graduated from the University of Latvia in 2005 with a bachelor's degree in Asian studies, where she mas-

tered Asian culture, business and the Japanese language. Co-founded the Group in 2006. In 2009 Ms. Tisenkopfa-Iltnere completed the Swedish Institute Management programme of leadership and corporate social responsibility practices. From 2016, has worked as a volunteer for MARTA Center, and NGO that works with issues relating to and 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.



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-Iltnere, 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.



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.

As seen from the table above, each management board member is involved in executive activities of the Company.

Board -Transparent Practices (G2)

The Management Board has the duty to submit a report on the activities and financial position of the Company open to the public once in 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.

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 environmental, social and corporate governance guidelines stated in this report.

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

**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

work place. It was also named 2nd most reputable company in Latvia, 2017.

The number of employees has grown by nearly 33% from 2015 to 2016. 12 new employees have joined the Company during the last 6 months. Four 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.

Supplier Code of Conduct (G5)

Currently, there is no written code of conduct for choosing suppliers according to their sustainability performance. Nevertheless, every supplier is chosen based on the following criteria:

Reliability – to ensure the supplier is acting according to written or verbal agreements and it has sufficient financial resources to deliver that which is required;

Quality – to ensure constant quality of the product/service provided and minimise the risk of a faulty product;

Value for money – to ensure that the resources allocated for purchasing products/services are used efficiently and generate the most value;

Strong service – to make sure that everyday communication is clear and problem solving is solution driven.

In addition, the Company has a list of alternative suppliers for strategically most important to minimise risks of being dependent on one supplier.

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.

Bribery/ Anti-Corruption Code (G7)

Although the Company doesn't have a formal written policy on anti-bribery / anti-corruption, it is by no means acceptable within the Company and would result in immediate dismissal of the employee.

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 at 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 on all of the quality aspects of the product, including traceability, 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 2015 and 31 December 2016) have been audited by Deloitte Audits Latvia SIA.



MADARA COSMETICS AS

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