

Closed Social Report

CLOSED

Closed organisational chart

129 employees	Head office Hamburg, Germany
92 employees	Warehouse Hamburg, Germany
7 employees	Showrooms Germany
17 employees	Showrooms International
107 employees	Shops Germany
27 employees	Showrooms International
24 employees	Outlets Germany
7 employees	Outlets International
410 employees	Total





Summary: 2022 goals & achievements

Fair working conditions have always been a matter of the heart for us – since our beginnings in 1978. We have always placed very great value on fair relationships with our production partners, who are mainly located in Europe, where more than 80% of our products are manufactured. We have been working with the majority of our production partners for decades – some of them have been at our side since the very beginning. Our partnerships are characterised by loyalty, trust and friendship. This forms the basis of our Code of Conduct, which is signed by Closed partners once a year in order to document our mutual understanding. Among other things, our partners commit to supporting fair wages and as decent working hours by signing the Code of Conduct. Being a member of the Fair Wear Foundation has helped us to work on the transparency of our supply chain and to formalise our commitment to fair working conditions.

This year, we continued to work towards our goal of moving an even larger share of our production volume to Europe. We prefer to have our products manufactured in Europe, not only because it means producing close to our main markets and avoiding long transport routes, but also because of the great experience with high-end products in European factories. We appreciate the generally higher social and quality standards in Europe. Producing in closer proximity to our headquarters also makes it more feasible to visit suppliers on a regular basis. We became even more aware of the importance of short distances to our suppliers during the pandemic. Even though our Chinese production partners, with whom we have been working for a very long time, act in an exemplary manner regarding human rights, we are of course aware of the political situation in China. In order to gradually shift our production out of China in the coming years, we developed an exit strategy in 2021. It is challenging for us to end our long-standing partnerships with our Chinese suppliers – on the one hand in terms of personal relationships, while on the other hand, we are also very satisfied with the product quality we developed together over the years. We already parted with two Chinese suppliers in 2022 on very amicable terms and communicated the exit strategy to our two remaining partners in China. The Covid situation in China accelerated the process, as some of our Chinese suppliers could not cover our quantities due to factory closings.

Instead of producing parts of our outerwear in China, we started working with new suppliers in Lithuania and moved parts of the production to our partners in Romania and Turkey. We have also expanded our blouse production in Portugal and started working with new suppliers there.

“The crises the world is currently facing also pose various challenges to the fashion industry. Now more than ever, we are aware of our responsibility as a fashion brand and will continue to stand up for human rights and fair working conditions.”

In addition to our China exit strategy and the associated process of finding new European partners, auditing existing European partners kept us busy in 2022. The majority of our products are manufactured in Italy. We achieved our goal to have our most important Italian suppliers and their biggest subcontractors audited in 2022. We are happy to report that the audits in Italy confirmed that all the factories respect human rights; there were no human rights violations whatsoever. Only minor issues were reported in the audits, which we were able to remediate immediately.

We also travelled to Turkey several times in 2022 to visit all suppliers and subcontractors. We are proud to report that all our factories are equally committed to human rights and high-quality products.

Another big issue in 2022 was rising prices. Due to the pandemic, Russia's war on Ukraine, the high inflation levels and several other issues, the prices for raw materials and labour rose quickly in 2022. Under no circumstances will we allow the current situation to have a negative impact on the wages of our suppliers' employees. We will pass on the rising costs for our products to our customers instead.

Fair labour conditions form an important pillar in our sustainability strategy at Closed. Sustainability has always been something we care about. We are not an eco-label and we feel that it's impossible for a clothing company with quarterly collections to be 100% sustainable. But we are continually finding new ways of improving to continuously make our processes as sustainable as possible. Our goal is to produce our collections under fair labour conditions, with less of an environmental impact – while never compromising our high quality. Our sustainability efforts are divided into five focus topics: circularity, raw materials, animal welfare, chemical management and production processes. For example: we started our own eco-denim line A BETTER BLUE in 2018 and increased the volume of sustainable materials step by step. We switched from conventional cotton to organic cotton for most of our essentials and started using recycled materials and natural dyes.

We demand certificates for all sustainable materials to verify the integrity of the materials and chemistry, including Global Organic Textile Standard (GOTS), Organic Content Standard (OCS), Global Recycled Standard (GRS), Responsible Wool Standard or the Lenzing certification number.

In addition to raw materials, production processes such as tanning, dyeing, printing, washing and finishing can also leave a heavy mark on the environment, in terms of greenhouse gas emissions, water pollution, water consumption and energy use. There is



various action that can be taken to reduce these impacts, depending on the processed material, desired design and technology in use – and it is always our aim to produce our collections with less of an environmental impact, as consciously as possible. Most of our materials are made in Europe where the technology standards are very high and risks in terms of water pollution and chemical use are generally lower due to stricter regulations. However, there are still important environmental factors for us to consider in our processes and we are in constant dialogue with our partners about further improving them.

An important step for us is to monitor and record all matters relating to labour conditions. To meet this challenge, we started setting up third-party audits in 2022 with the help of the Fair Wear Foundation. Fair Wear's Code of Labour Practices forms the base: the employment is freely chosen, freedom of association and the right to collective bargaining, no discrimination in employment, no exploitation of child labour, payment of a living wage, reasonable hours of work, safe and healthy working conditions, and legally binding employment relationships. We are committed to implementing these eight standards in our supply chain to ensure that our products are made in a fair and safe way. Our membership of the Fair Wear Foundation is key to achieving this. Together with Fair Wear, we are developing a process to monitor and improve working standards at the factories that make our products. All suppliers have received the Fair Wear Questionnaires and Worker Information Sheets from us. We continue to work on improving our internal structures in order to document all site visits and discussions with our suppliers.

We are also currently preparing for German Supply Chain Due Diligence Act ("Lieferkettensorgfaltspflichtengesetz"), coming into effect in January 2023. This federal law guides the economic actions of companies based in Germany by imposing human rights due diligence obligations on them that they must comply with within their supply chains. Companies above a certain size (2023: more than 3,000 employees; 2024: more than 1,000 employees) have to observe the human rights and environmental due diligence obligations set out in the law with the aim of preventing, minimising or ending human rights violations or environmental risks. Closed is not yet under obligation to comply with this law. However, it is our aim to already start to prepare everything proactively.

Sourcing strategy

SOURCING STRATEGY & PRICING

It is part of our strategy to mainly source in Europe, where 80% of our products are made (compared to around 20% in Asia). As stated in the summary, we continue to pursue our goal of moving an even larger share of our production volume to Europe. In the past business year, we parted ways with two of our most important Chinese producers and informed the remaining two suppliers in China about our exit strategy. We searched for European suppliers to take over the capacities formerly covered in China.

We choose our suppliers very carefully and always aim for long-term relationships. Before we start a partnership with a new supplier, we carry out a risk analysis that includes labour conditions. We avoid low-wage countries and fast-fashion manufacturers, as they are neither in line with our values nor do they adhere to our high quality standards. Our goal is to create products that form the opposite of fast fashion: Closed stands for high-quality garments that are meant to be worn for years to come. Our designs have a contemporary appeal, but we never chase short-lived trends.

Working with new suppliers is always a challenge, and building meaningful new relationships takes time – it requires a lot of communication and intensive exchanges of input and ideas. We built a team with people from different Closed departments (design, purchasing, production, CSR) to get to know new suppliers in Portugal and Lithuania at the beginning of 2022. Together, we set out to meet them and to find out whether we can build collaborative partnerships together. We considered many different criteria for our decision: Does the supplier meet our requirements in terms of ethics and human rights? Do they deliver a high-quality product? Of course, required quantities are also an important issue.

It was worth the effort: we are happy to have found a new supplier in Portugal. The company will take over the quantities of our Chinese blouse manufacturer by 2025. In 2023, we will already start with small quantities in Portugal and then increase the volume further in the coming seasons.

Another big challenge is to move our outerwear production out of China. Fortunately, we found a supplier in Lithuania who delivers very high-quality products and meets all our requirements. We were able to start small-scale production there in 2022, as the Covid situation in China forced us to restructure our production quantities earlier than planned.



HUMAN RIGHTS DUE DILIGENCE

We continue to expand our annual supplier risk assessment. Our risk assessment tool takes the findings of many different organisations into consideration and combines them with our own evaluation of the partnership – from labour standards to ecological aspects and the individual financial stability of the supplier. The Human Development Index, the Social Progress Index, the Corruption Perceptions Index, the Logistics Performance Index or the country studies of the Fair Wear Foundation are some examples that help us to assess every supplier’s individual risk.

Our risk assessment team consists of people from various Closed departments (production, design, buying and sourcing). While assessing the suppliers in 2022, we paid special attention to the developments in Italy, as the country was declared a high-risk area due to refugee and immigrant workers. The majority of our products are made in Italy. To confirm that our suppliers comply with our human rights standards, we undertook an audit of our most important Italian suppliers in July 2022.

We have finalised our Responsible Business Conduct Policy in 2022 to officially formalise our commitment to ensuring that our entire supply chain is safe and transparent – from raw materials, through material production and finishing, to manufacturing, washing and other wet processes. For us, it is essential that not only our own employees, but all workers of our production partners and suppliers are treated with respect and dignity, and that all work steps are carried out in an environmentally-friendly, conscious and ethically responsible manner.

The next step is officially setting up our Responsible Sourcing Strategy.

PRICING

Our suppliers are required to pay their workers at least a minimum wage and work towards living wage levels.

Our aim is to be transparent and fair when it comes to pricing. We work with an open price structure. Starting in the initial design process, we work with target prices and develop the product accordingly in close cooperation with our suppliers. With our main manufacturer for women’s jeans in Italy, we share a sheet with all costs to provide a detailed overview of the calculation.

It is important to us to plan our production in as much detail as possible every season in order to be a reliable partner for our suppliers. This means planning and booking capacity as early as possible, so suppliers have enough time to deliver our orders. We pre-book production time slots before the sales period for most of our collection and we also pre-book materials wherever possible to prevent delays due to unforeseen issues with our fabric, yarn or leather supply.

PRODUCTION CYCLE

Our production cycle consists of four womenswear and menswear collections per year (spring, summer, autumn, winter) and two to four smaller capsule collections. At every stage of the planning process of our production, our aim is to communicate as clearly and transparently as possible with our suppliers – and to initiate all necessary steps as early as possible. We always like to ensure that we are reliable partners, enabling our suppliers to plan ahead and thus supporting reasonable hours of work in the factories.

Our production lead time is four to six months. The main collections are divided in two or three delivery groups. The groups are clearly defined for our suppliers to enable better planning and ensure stable production quantities per season. We always communicate the production delivery dates as early as possible.

To avoid material delays, which could result in overtime in the factories, we order (or block) our fabrics and trims as early as possible. The sales figures are also communicated early.

In case of sudden changes, we always inform our suppliers right away.

The process

Design	Prototypes/salesmen samples are created for the sales period
Production	Fitting of salesmen samples, size sets and pre-production samplers
Buying	Informing suppliers with the help of sales projections and weekly updates for orders



FACTORY RELATIONS

As previously stated, we selected two new suppliers for blouses and dress factories in Portugal last year, and they will replace our current partner in China by 2025. We started in Portugal with a small sample group and will place a small production group there in 2023. This is quite unusual for us, as our partners do not often change. When it comes to our suppliers, 87% of them have been our partners for more than five years, 50% of our suppliers have been our partners for more than ten years. Our partners receive orders from us on a very regular basis. Long-term partnerships are very important for us, and we think they are key to ensure the high quality of our products. We always look for partners who are interested in becoming part of our Closed story.

INTEGRATION OF MONITORING ACTIVITIES AND SOURCING DECISIONS

In our second year as a member of the Fair Wear Foundation, we look back on busy times with many audits and visits. We are happy to report that we were able to audit our main suppliers, who account for 50% of our production volume in total in 2022.

Italy is home to our main suppliers and accounts for more than 30 % of our production volume. Therefore, it was our priority to have our Italian suppliers audited in 2022. In July, an independent organisation audited our two most important Italian suppliers as well as five of their subcontractors.

We visited Portugal for a week in April 2022 to conduct Health & Safety Checks at our shirt and jersey suppliers' sites according to the Fair Wear Foundation's criteria. In Portugal, this is equivalent to an audit. These suppliers account for around 20% of our production volume.

Our Turkish suppliers are also very important to us. We visited them for a week in June and October respectively to inform them about the upcoming supply chain due diligence act and to discuss our cooperation with the Fair Wear Foundation. We started planning audits in Turkey for 2023. We visited all our production sites in Turkey and carried out Health & Safety Checks. During our second visit, we checked the flagged issues from our first visits to make sure everything had been remediated. We also inspected some of the subcontractors without prior notice. We documented everything in reports and photos.

All audits and checks only found minor issues such as blocked corridors or fire extinguishers, locked emergency exits or medicine cabinets. We could quickly rectify all of these deficiencies.

There were no human right violations whatsoever and we are happy to report that we could once again confirm very good working conditions in all factories.

In 2023, we plan to focus on auditing our Turkish suppliers and continuing building good relationships with our new suppliers. We also intend to put our China exit strategy into further effect.





Coherent system for monitoring and remediation

40% Italy*

24% Turkey

16% Portugal

12% China

8% Romania

Italy – 40%

Italy has been our main production country from the very beginning. Almost all of our jeans and many of our pants are still being produced in Italy. These product groups are our most important ones with the largest quantities. All of our shoes and leather belts are also produced in Italy; the quantities are quite small. Overall, around one third of our products is made in Italy. We also have Italian suppliers for a substantial proportion of our fabrics and yarns.

In July 2022, we had our factories in Italy audited by an independent organisation. We started with our most important supplier Paul, where our largest quantities meet our highest leverage, as Paul produces all of our (women’s) denim and almost exclusively works for Closed. We also had another supplier and four subcontractors (cut, make and trim) audited.

Important points such as management system requirements, payment of living wages, and safe and healthy working conditions were checked. Findings such as the lack of reports on fire drills, the lack of health and safety or first aid training, or failure to pay overtime at 130% according to the applicable collective agreement were communicated and dealt with. All results were noted and a deadline of the end of October was set to correct them. By the end of October, we checked back again to make ensure everything had been remediated or is being worked on.

* Percentage share of production volume in the respective countries

Turkey – 24%

The production of jersey and felpa garments, knitwear, pants and leather/shearling garments takes place in Turkey. Especially considering our strategy to exit China, Turkey remains an important partner for us. We are going to focus even more on our Turkish suppliers in the near future.

In February 2022, we visited four of our Turkish suppliers and conducted Health & Safety Checks according to the Fair Wear Foundation's criteria. We also discussed the topics of working conditions and human rights intensively with our partners. The topic of overtime was also of relevance, especially in one factory. It is very important for us to find a solution together to avoid excessive overtime. Therefore, we revised internal workflows to enable even more predictability for the factories. We visited our suppliers a second time in October to further discuss how we can improve this even more. We are now confident to say that we are on the right track.

We also visited two subcontractors unannounced in October to check the working conditions and can confirm that there were no issues in both factories.

Unfortunately, most of our Turkish have reservations regarding the Fair Wear Foundation's work and audits. We discussed this thoroughly with all of them and discovered that the right of freedom of association and the right to collective bargaining is a major challenge for suppliers in Turkey. It is our goal to find a solution as soon as possible to be able to conduct audits in Turkey, and we are in constant exchange with the Fair Wear Foundation about it.

Until then, we can confidently state that we have great partners in Turkey who share our values and are very loyal and honest. We have been working together for many years and discuss everything openly.

Although some of our partners are sceptical regarding the Fair Wear Foundation, they are open to other audits. Some of them have already been audited by other organisations and we were able to view the reports which could confirm the high standard of working conditions.

Portugal – 16%

Portugal is where the majority of our cotton shirts and blouses is manufactured. A part of our jersey garments is also made in Portugal and all our leather bags are manufactured there.

In 2022, we visited our Portuguese factories. It was a very successful trip with a team from our production, buying, design and CSR departments on site. We audited our factories ourselves on the basis of the Fair Wear Foundation's health and safety checks. For this we used the Fair Wear Foundation's questionnaire and documented the findings with reports and photos. Only minor issues were noted, such as locked medicine cabinets or concealed fire extinguishers. Everything was able to be corrected on the spot. To further expand our production in Europe, we have also visited two new factories in Portugal and are planning small-scale blouse and dress production in 2023.

China – 12%

A proportion of our knits, blouses, dresses, chinos and outdoor jackets are made in China. As stated above, we are focusing more and more on producing in Europe. We are planning to reduce our production in China gradually from 20% to 10% within the next two to three years and then work exclusively with European suppliers.

This year, we took the first step of our exit strategy and parted ways with two of our long-standing Chinese partners. One of them was our supplier for men's chinos. As our product quality has further evolved towards high-quality European craftsmanship, our production volume in this factory has steadily decreased over the last three years – and now it was time for both sides to go their separate ways. We part on very friendly terms.

Unfortunately, things have come to an end with our Chinese outerwear supplier sooner than expected. The Covid situation in China and the resulting factory closings forced us to act faster than planned. We had to relocate our production in order to be able to produce the needed quantities and found a new supplier in Lithuania. We moved another part of our outerwear production to our supplier in Romania.

Nevertheless, we had the jackets produced in China, as originally planned – although with a major delay.

For the two remaining suppliers that manufacture some of our blouses, dresses and knitwear, an exit is planned by 2025. This has already been communicated to the suppliers.

Romania – 8%

Romania is where the production of our ready-to-wear garments takes place: our coats, jackets, blazers, pants and skirts are made in Romania. Our Romanian supplier was audited by the Fair Wear Foundation in March 2022. The audit went well, only minor findings were noted, such as hidden fire extinguishers or incorrectly parked cars. These issues were rectified within the deadline we set and confirmed in writing and with photos.

In the process, the Fair Wear Foundation also conducted training sessions to encourage employees to set up a grievance mechanism and to inform them about their labour rights.

We are also keen on personal contact and visited the factory in April 2022. Our buying team has a weekly video call with Texdata to further improve our processes.

EXTERNAL PRODUCTION

We have a small proportion of products by external brands which are sold in our shops and online shop. The focus is on products by smaller brands, preferably made in Europe. In the past financial year, we have informed all external brands about our Fair Wear membership and the respective labour standards. New external brands are chosen carefully and should always adhere to our high standards when it comes to fair labour and sustainability.



Complaints handling

All of our suppliers are informed about the Fair Wear Foundation’s complaint mechanisms. The worker information sheets are visible in every factory, and workers can call the FWF hotline to report complaints. Nina Schlüter, director buying & production at Closed, is responsible for handling complaints. We are aware of the importance of handling complaints immediately and have set up a system to monitor information regarding complaints and to follow up on remediation.

To make absolutely sure workers are aware of their rights and the Fair Wear Foundation’s complaint mechanisms, we also commission trainings.

In 2022, there were no complaints raised by workers.

Training and capacity building

ACTIVITIES TO INFORM STAFF MEMBERS

We are very proud to be a Fair Wear Foundation member and inform our staff regularly about news such as audits or trainings. On a monthly basis, we have meetings with our sustainability/CSR team to discuss relevant topics and news. We do not have a CSR department at Closed but formed an internal task force with employees from different departments (design, production, communications) to cover all topics related to social responsibility and sustainability. Involving several departments increases the awareness internally – sustainability and social responsibility are among our most important values and matter in every department. Since 2022, we have a dedicated employee who takes care of all Fair Wear operations.

ACTIVITIES TO INFORM AGENTS

We only work with two agencies, one in Portugal and one in Turkey. They are completely involved in our Fair Wear activities and updated with relevant news regarding CSR topics.

ACTIVITIES TO INFORM MANUFACTURERS AND WORKERS

All existing partners and new suppliers are informed about our Fair Wear membership, and we explain the purpose and mechanisms of the foundation in detail. It is our goal to actively involve our partners in keeping social and ecological standards high.

Another Fair Wear Foundation member organised two trainings for our joint Romanian supplier in 2022.

Information management

We set up an internal system for keeping track of progress on the implementation of the Code of Labour practices for all suppliers. To identify all production locations, including subcontractors, we were in constant exchange with our main suppliers until we were able to collect all information and store it in Fair Force.

Transparency & communication

We are very proud to be a new member of the Fair Wear Foundation and informed our customers through social media posts, newsletters, in our sustainability report and on our website about our membership. We also took part in the “Who made my clothes?” campaign on Instagram.

Stakeholder engagement

We have engaged with several stakeholders in the past financial year, including PETA, Four Paws, German Fashion, Textile Exchange, DTB and GOTS to discuss social and ecological standards in our industry. Fair Wear’s country studies on China, Turkey and Italy as well as FW webinars were great resources to stay up to date.

A woman with dark hair pulled back, wearing dark sunglasses and a white button-down shirt, is sitting on a sandy beach. The ocean and a cloudy sky are in the background. The word "CLOSED" is written in a bold, black, sans-serif font, underlined, in the upper right corner of the image.

CLOSED