

**patagonia works™**

# **Annual Benefit Corporation Report**

**Fiscal Year 2015  
May 1, 2014 – April 30, 2015**

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# Letter from Our CEO

## Dear Friends,

This has been an exciting year for the B Corp community, now more than 1,500 companies strong. This expanding movement is part of a new emerging economy, one of businesses that recognize our full responsibility to the world we live in.

And none too soon. It's official: according to NASA and NOAA, 2015 was by far the hottest year in recorded history, as was 2014 before that. To measure, then reduce, the negative environmental and social impacts of every business has never been more critical. And to reduce those impacts will only make us smarter, stronger, and more innovative businesses, as we work in a hurting world to help bring about the healthier one we want to leave to the next generation.

As a B Corp, and a registered benefit corporation, Patagonia is proud to be part of a community of businesses who learn, share with transparency, and support one another on this journey of improvement. It is the only way we can move forward with the urgency and momentum needed to solve the huge challenges we face due to global climate change and failed social and economic systems.

This past December, I returned from COP 21 in Paris where I saw firsthand how directly and powerfully the impact of grassroots environmental organizations, and the social and climate justice activists, has influenced policy, politics and capital markets. The experience inspired me—and reminded me—that the B Corp movement may be small now, compared to the larger economy driven by capital markets, but our collective voice is powerful and needed.

I am proud of the work my team accomplished this year to improve our impact assessment score and support Patagonia's benefit purposes. I am heartened by what we continue to learn from our peers in the B Corp community (and that they are eager to hear from us). This is an essential contribution toward a vision of business that works for people, communities and the planet as well as the bottom line.



**Rose Marcario**  
CEO and President

# Introduction

Patagonia Works and its US subsidiary operating companies, Patagonia, Inc., Great Pacific Iron Works, Fletcher Chouinard Designs, Inc., and Patagonia Provisions, Inc., became benefit corporations in the state of California on January 3, 2012. We were the first company to formally register as a benefit corporation in California on the first day we were legally able to do so. A benefit corporation is a legal designation that allows a socially and environmentally committed company to write its beneficial values into its charter and articles of incorporation, where they become legally binding. Patagonia Works and its subsidiaries share common values, operate in a similar manner, and have all adopted the same specific benefit purposes, which cannot be changed without unanimous shareholder approval. This report, in conjunction with the certification provided by B Lab, fulfill the requirements of the state of California related to our benefit corporation status. We are proud to be a California benefit corporation and part of the broader certified B Corp movement, which has grown to more than 1,500 certified B Corps operating across 130 industries in 42 countries.

# Patagonia's Benefit Purposes

In 2011, in preparation for our conversion to a benefit corporation, Patagonia developed specific public benefit purposes reflecting our values and mission, which is to “Build the best product, cause no unnecessary harm and use business to inspire and implement solutions to the environmental crisis.” These specific benefit purposes were adopted by the board of directors and shareholders of Patagonia Works and each of its benefit corporation subsidiaries, and were written into the articles of incorporation and bylaws for each company. As a result, they govern each company’s actions at the most fundamental level, and we use them to guide our efforts to create benefit for the public and the planet. The following constitute our specific benefit purposes:

- 1. 1% for the Planet\***. Each year, we contribute one percent (1%) of our annual net revenues to nonprofit charitable organizations that promote environmental conservation and sustainability.
- 2. Build the Best Product with No Unnecessary Harm.** We endeavor to build the best products and to cause no unnecessary harm to the planet or its inhabitants by: (i) designing and fabricating the highest quality products as defined by durability, multifunctionalism and non-obsolescence; (ii) designing and fabricating products that are easily repaired and made from materials that can be reused or recycled; (iii) designing and fabricating products with minimum impacts throughout the supply chain—including resource extraction, manufacturing and transportation—on water use, water quality, energy use, greenhouse gas emissions, chemical use, toxicity and waste; and (iv) partnering with customers to take mutual responsibility for the life cycle of its products, including repair, reuse and recycling.
- 3. Conduct Operations Causing No Unnecessary Harm.** We will conduct our operations in a manner causing no unnecessary harm by continually seeking to reduce the environmental footprint and impact of our operations in water use, water quality, energy use, greenhouse gas emissions, chemical use, toxicity and waste.
- 4. Sharing Best Practices with Other Companies.** In support of our commitment “to use business to inspire and implement solutions to the environmental crisis,” we will share proprietary information and best practices with other businesses, including direct competitors, when the board of directors determines that doing so may produce a material positive impact on the environment.
- 5. Transparency.** We will provide information through our website and print catalogs that describe the environmental impact of representative items across our different product lines based on the best science and data practicably available.
- 6. Providing a Supportive Work Environment.** We will endeavor to provide a supportive work environment and high-quality healthcare through measures including, but not limited to, providing on-site daycare at our corporate headquarters or subsidized childcare at our other facilities.

# Patagonia's Efforts to Create Public Benefit in FY 2015

At Patagonia we work each day to live up to our corporate mission statement and our benefit corporation commitments. Our efforts and shortcomings are described below.

# 1% for the Planet<sup>®</sup> and Other Grassroots Support

We are passionate about protecting, preserving and sustaining the ecological systems that support our planet. We believe we can make the most impact in this area by supporting grassroots environmental organizations and campaigns that address the root causes of the environmental crisis. These movements may fight to do things like protect a stretch of river threatened by pollution, take down derelict dams that no longer serve a purpose, push the federal government to abide by its own laws, or protect large swaths of land from extractive industries. Thirty years ago, this belief led our founder, Yvon Chouinard, to require that Patagonia begin paying what he referred to as an “earth tax,” and later to develop, together with Craig Mathews, 1% for the Planet. It also set out a clear framework for much of our environmental giving, which comes in the form of financial contributions, volunteer hours, and highlighting these issues through marketing and media dedicated to supporting grassroots environmental organizations

- 1. Environmental Grants and Support:** Since 1985, Patagonia has pledged 1% of net revenues to organizations established to preserve and restore wild places. In 2002, Yvon Chouinard and Craig Mathews, owner of Blue Ribbon Flies, established the nonprofit 1% for the Planet, which has since grown into a global movement of more than 1,200 member companies in over 48 countries, all donating at least 1% of their annual sales to environmental causes. Over the years, Patagonia has awarded over \$70 million in cash and in-kind donations to domestic and international grassroots environmental groups making a difference in their communities. In FY 2015 we donated \$6.2 million to 741 nonprofit charitable organizations that promote environmental conservation and sustainability. These donations were directed largely, but not exclusively, to smaller grassroots organizations approved by 1% for the Planet that operate in markets where we conduct business. Our grants are directed to organizations that identify and work on the root causes of problems and are committed to long-term change. Because we believe that the most direct path to meaningful change comes from building grassroots momentum, we seek out organizations that create a strong base of local citizen support.
- 2. Collaborative Grantmaking:** We are actively involved in industry and other collaborative grantmaking coalitions of businesses, foundations and nonprofit organizations including The Conservation Alliance, Environmental Grantmakers Association, and Canadian Environmental Grantmakers Network.
- 3. Matching Donations Program:** Patagonia matches, dollar for dollar, any donations employees make to non-denominational, US-based charities of their choice. In FY 2015, Patagonia matched \$116,905 in contributions to nonprofit organizations through this program.
- 4. Employee Volunteerism:** Over the past year Patagonia employees volunteered 10,424 hours on company time. These hours were accumulated through volunteer days, corporate outings and employee internships. Through these efforts, our employees helped do things like document hazing of buffalo near Yellowstone National Park, rehab injured sea lions found in the Santa Barbara Channel, and raise awareness of a sulfide mine proposed near the Boundary Waters Canoe Area Wilderness. We also joined with other companies located near our Ventura headquarters to help restore native vegetation in a nearby preserve in conjunction with The Conservation Alliance’s Backyard Collective. Our Ventura-based staff organized our annual Salmon Run Benefit 5K, which raised over \$10,000 for Los Padres ForestWatch.
- 5. Employee Activism:** In addition to our volunteer program, we encourage employees to use activism as a tool to influence environmental change and to advocate for a sustainable future. Over the past year, Patagonia and our employees continued to campaign for the removal of deadbeat and derelict dams across the globe. We also engaged in various campaigns, including the “Protect Bears Ears” effort in southern Utah, which seeks to preserve and protect this area as a national monument. In Chile, our employees were actively involved in efforts to protect the Chilean coastal culture and environment through our “Punta de Lobos por Siempre” campaign. In September of 2014, we closed our four New York City stores so employees could march with our CEO in the People’s Climate March. We highlighted each of these efforts through broad-reaching marketing campaigns to extend awareness as far as possible.

# Build the Best Product with No Unnecessary Harm

The first two phrases of Patagonia's mission statement are to "build the best product" and "cause no unnecessary harm." These statements frame much of our company's work. We believe that building long-lasting, durable products that withstand wear and tear is one of the most environmentally significant actions we can take. When our products are damaged, we try to extend their life by offering repair services and instructions on how users can fix the gear themselves. We are always looking to reduce the environmental impact of our products and source materials that can be reused or recycled rather than sent to the landfill. With the launch of our own food business, Patagonia Provisions, we are taking these same tenets beyond the apparel industry.

For a performance-based product company, this is a constant challenge. And we are not satisfied with how we're performing to meet this goal. Most of our technical products require some component to maximize performance that causes harm to the environment. Currently, only 56 percent of our annual material volume is approved by bluesign technologies, which validates chemicals, processes, materials and products that are safe for the environment, safe for workers and safe for our customers. Waterproof materials, a core part of our product offering, can still only be made well using a fluorocarbon-based water-repellency treatment that is harmful to the environment. One of our most urgent development projects is to work with experts in the field to find an alternative treatment, but it's taking longer than we hoped and we are not making enough progress.

## Tools We Use

- 1. YC Quality Scorecard:** To help drive improvements internally, in FY15 we established a scorecard we use to rate the quality of our products on a scale from 1-10. We examine 10 attributes as described in Yvon Chouinard's book, *Let My People Go Surfing*, which include such things as durability, multifunctionalism, non-obsolescence and the use of less harmful materials. It is our goal to consistently produce products that average a rating of 8 or better. The products that scored in the bottom 10 percent of each category were assessed in greater detail to find opportunities to improve them. We'll continue to reassess our entire line each year against the attributes of our design philosophy with the goal of refining and improving each product.
- 2. bluesign®:** In 2007 Patagonia became the first brand to officially join the network of bluesign system partners, adopting this third-party's standards designed to assess environmental health and safety in the manufacturing of textiles. The bluesign system includes independent auditing of textile mills to examine manufacturing processes from raw materials and energy inputs, to water and air emissions outputs. More than 300 manufacturers, brands and chemical suppliers are now bluesign system partners, many of which are part of our supply chain. Bluesign system partners share our commitment to continuous improvement of environmental performance by conserving resources and minimizing chemical impacts. We set a goal that by 2015, all Patagonia materials would be bluesign approved. Today we are only at 56 percent.
- 3. Chemicals and Environmental Impacts Program:** In June 2015 we launched our Chemicals and Environmental Impacts Program (CEIP), utilizing a tailored approach to assess and reduce impacts at each of our supplier facilities. Following the strictest global chemical safety regulations and incorporating on-site environmental facility audits, the CEIP program utilizes tools included in other industry standards—including bluesign, the Outdoor Industry Association's Chemicals Management Module, and the Sustainable Apparel Coalition's Higg Index—to evaluate performance in all areas of energy use, greenhouse gases and air emissions, water use and emissions, solid waste, chemicals management and environmental management systems. We are committed to making products using fewer natural resources and to reducing waste and pollution. We believe CEIP will help us do that.



## Products and Collections We've Launched

- 1. Truth to Materials:** In fall 2014, we produced a collection of clothing we called Truth to Materials with the goal of staying as true as possible to the origin of a material during every step of the design and manufacturing process. The clothes in this collection represented a deeper dive into the progress we've already made with materials like organic cotton and recycled polyester, but with less dyeing and processing and fewer virgin resources. We explored minimally processed animal fibers, and going beyond organic by reusing materials that might otherwise be destined for the dump. The materials used in this collection included reclaimed down, reclaimed cotton, reclaimed wool and undyed cashmere.
- 2. Advanced Denim:** Our materials team worked with industry partners to develop a new denim that would change the way denim is made. In fall 2015, this work came to fruition with a newly introduced line of denim products made with organic cotton, dyed with an innovative process that uses 84 percent less water, 30 percent less energy and emits 25 percent less CO<sub>2</sub> compared to conventional synthetic indigo denim dyeing, and is Fair Trade Certified™ for sewing.
- 3. Expansion of Patagonia Provisions:** This year we added two new food products to Patagonia Provisions' offering of sustainably fished Alaskan salmon: Tsampa Soup and Organic Fruit + Almond Bars. Made with organic, roasted whole grains and vegetables, Tsampa Soup is good, simple food made for backcountry cooking. Our Organic Fruit + Almond Bars are highly portable "energy" bars containing no artificial sweeteners, corn syrup, preservatives, coloring, chemical supplements, MSG or GMO ingredients. Both of these offerings are part of our efforts to find solutions to repair a broken food chain.

## Programs We've Implemented

- 1. Worn Wear:** Worn Wear is an environmental program conceived to reduce the footprint of Patagonia products and encourage consumers to change their relationship not only with our stuff, but ultimately, all stuff. Worn Wear promotes investing in quality, repairing things when they break, passing along used clothing to others, recycling worn-out goods and celebrating the clothing that travels with us through life. To perpetuate the long and storied lives of Patagonia clothing and gear, we launched our Worn Wear repair tour from San Francisco in April 2015 for a 21-stop, six-week adventure. In advance of tour stops, we asked customers to bring us their well-loved clothing in need of a fix. And if they didn't have any Patagonia clothing, we offered them our used gear for sale. Or participants could make use of our tools, supplies and expertise to fix a broken item we provided from our do-it-yourself selection, which was then theirs to keep for free.
- 2. Product Returns Program:** We're committed to taking responsibility for our products from birth to rebirth, accepting all used Patagonia products that customers return to our stores at no charge. Whenever feasible, we facilitate the reuse or recycling of these products. When we don't have a way to reuse or recycle the product, we break the parts down and store them in our distribution center and use the components to repair customers' garments. Since 2004, we've recycled 164,062 pounds of Patagonia products.

# Conduct Operations Causing No Unnecessary Harm

As Patagonia's physical footprint continues to grow, we try to do so in a way that minimizes overall impact to the earth and its inhabitants. In all new construction, retrofit and expansion projects, we try to incorporate responsible building design and material selection as much as possible, retrofit old buildings rather than build new ones, source materials close to our building sites, reuse old fixtures and materials, and install energy- and water-efficient appliances. We have generally done this as a matter of course, but are currently formalizing design standards we can apply to our owned and operated facilities around the world.

This past year, we increased our efforts to measure the effects our operations have on water use, greenhouse gas emissions and waste generation. Our social and environmental responsibility team has made great progress toward developing a metrics-collection program to inform our decision-making process and strategically target specific regions, stores and/or processes for the most impactful footprint reduction initiatives.

- 1. New Store Build-Outs:** This year we opened two new Patagonia stores—one in New York City and the other in Vancouver, British Columbia—trying to minimize the impact of our new footprint and retain the cultural and design aesthetic of the buildings. With both of these new stores, we were able to reclaim wooden beams to make furniture and rafters, build all of our clothing fixtures with reclaimed wood, use LED and CFL lighting, install low-flow toilets and utilize non-VOC paint.
- 2. Amsterdam Office:** We opened our new European headquarters this year, renovating an old office space in Amsterdam. In designing the office, we followed minimalistic principles and built off the features of the current space and building, adding only the necessary upgrades. The walls and windows are original and we used no new paint. Approximately 70% of the wood used for office features was recovered from nearby renovation projects and all new wood came from fast-growing European pine. The iron is recovered and acoustic insulation is first layer virgin cork, which would usually be discarded, as it is too rough for interiors. Office spaces, including showrooms, enjoy natural daylight, and all artificial lighting is partitioned so that only the spaces that need extra light are switched on.
- 3. Drive-Less Program:** Patagonia offers employees \$2 for every one-way commute (\$4 RT) that forgoes a single-occupant car trip in favor of ride sharing, human-powered transport and/or public transit. Over the past year we were able to avert 774,671 single-driver car-trip miles through this program.

# Sharing Best Practices with Other Companies

In support of our mission statement's commitment "to use business to inspire and implement solutions to the environmental crisis," Patagonia continues to share proprietary information and best practices with other businesses, including direct competitors. Though this may seem counter to typical business practice, we believe that sharing our best practices, new technologies and research findings with other companies is the only way to make significant change on the indicators of planetary health. As a relatively small company in the apparel industry, we recognize that working together across industries to affect change will increase the odds of success. At the same time, we know that working together by committee or coalition can slow down the decision-making process. Always looking to balance those considerations, we partner with other companies, coalitions and working groups to gain inspiration and inspire others.

- 1. Industry Collaboration:** We actively participate in various industry organizations, such as the Sustainable Apparel Coalition, Outdoor Industry Association Sustainability Working Group, Fair Labor Association, Businesses for Innovative Climate and Energy Policy, American Sustainable Business Council, European Outdoor Group, bluesign® system, and Corporate Eco Forum.
- 2. Yulex®:** Our search to build a better wetsuit led us to partner with Yulex, a company that manufactures natural plant-based rubber. Extracted in a water-based separation process that produces little waste, we're now blending natural rubber (60%) into Patagonia wetsuits to reduce our dependence on petroleum-based neoprene. We've been open and transparent about our efforts in this area with the hope that the surf industry will adopt the same materials to lessen environmental impacts.
- 3. Sustainable Apparel Coalition:** Patagonia is an active participant in the Sustainable Apparel Coalition, including the development of its Higg Index, a suite of tools to measure the social and environmental impacts of brands and supply chain facilities. One feature of the Higg Index's online platform we have found particularly useful is the ability to share our scores and "connect" with other brands and suppliers who also share theirs.

# Transparency

We want our customers to know exactly what they're buying and where and how it was made. We believe that showing the good and the bad aspects of our supply chain and operations not only informs our customers to make conscious decisions, but it holds us more accountable. Through our website, blog posts, catalog essays, Environmental and Social Initiatives Booklet, annual Benefit Corporation Report, partnerships with academic institutions, speaking engagements and other channels of communication, we strive to be open and transparent with the goal of becoming even more responsible and inspiring other companies to follow suit.

With expanded external transparency comes increased internal responsibility. When we tell the "good" stories of using responsible materials or manufacturing processes, we need to be 100 percent sure what we are saying is verified and accurate. When we tell the "bad" stories of falling short of our goals, we know we have to work to fix those problems as soon as possible. Throughout FY 2015, we continued to inform our customers about the environmental impacts of Patagonia products, traditional and innovative manufacturing processes, and the merits of building durable products made in a way that minimizes harm to the planet and people.

- 1. The Footprint Chronicles®:** The Footprint Chronicles is a customer-facing, web-based tool that shows our global supply chain. We use it to provide public transparency with the goal of reducing the social and environmental impacts of our products. This year we incorporated The Footprint Chronicles onto our website product pages to make each product's supply chain even more visible to the consumer.
- 2. Traceable Down:** As of fall 2014, the majority of Patagonia down products contain Traceable Down traced from parent farm to apparel factory to help ensure the birds that supply it are not force-fed or live-plucked, amongst other leading animal welfare protections. In FY15 we partnered with NSF International to adopt our Traceable Down Standard and turn it into a global certification designed for use by any company. As of January 2015, the Traceable Down Standard is now an international certification.
- 3. Fire Safety Initiative:** Taking a proactive approach to address fire safety in the supply chain—one that encourages and strengthens our factories' abilities to manage fire safety themselves—in 2013 we joined the Fair Labor Association's Fire Safety Initiative. This is a global program that trains workers, factory management and other stakeholders to actively promote fire safety inside factories, recognize hazards and address them. Further, our Patagonia field manager based in Hong Kong received the National Examination Board in Occupational Safety and Health (NEBOSH) International Certificate in Fire Safety and Risk Management, which equipped him to train fire safety facilitators at five of our factories in Vietnam. We are now working with the rest of our field managers to bring the program to all of our finished-goods factories.

# Providing a Supportive Work Environment

We believe a supportive work environment is one that enhances work-life balance and physical and mental health for our employees and the people employed in making our products. For our approximately 2,000 employees based around the world, we offer a range of programs to support those efforts with varying degrees of success. We measure success in this area through employee feedback and our very low employee turnover rates of around 4 percent per year. We also see nearly a 100 percent return to work rate for mothers following their maternity leave. And, in FY 2015, we were proud to be honored by President Obama as one of the White House's "Working Family Champions of Change."

For the factory employees involved in making our products, we have a long way to go. Right now the focus is on ensuring fair, safe and healthy working conditions by establishing meaningful guidelines for factories and suppliers backed by a strong audit and remediation program that monitors compliance and supports continuous improvement. This is an area in which we, and most brands, need to improve, but we're consciously working toward affecting positive change for garment workers around the world.

## Our Own Operations

- 1. Health Benefits:** We provide health insurance to all full- and part-time employees working at least 20 hours per week, with no premium required, effective their first day of work. In January 2012, we changed insurance carriers to improve medical benefits, increasing our acupuncture coverage, adding a massage therapy benefit and lowering the in-network deductible to \$250. These increased benefits remained in place in FY 2015.
- 2. Retirement Benefits:** Patagonia matches employee contributions to the Vanguard 401(k) retirement plan equal to 50 percent of the first 5 percent an employee contributes. In addition, and regardless of participation in the program, the company pledges a 3 percent contribution annually to all eligible employee accounts. In FY 2015, the company made an additional contribution equal to 5 percent of an employee's base wages.
- 3. Company-Operated, On-site Child Care:** For the past 30 years at our Ventura headquarters, and starting in January 2016 at our Reno distribution center, we have offered high-quality, company-run, child care. Our Ventura program, Great Pacific Child Development Center (GPCDC), provides full-time care through preschool, as well as after-school and summer programs for kids through third grade. This includes transportation services for school-aged kids from four local elementary schools. Our Reno program, Truckee River Child Development Center (TRCDC), recently opened with a classroom for infants through 24 months, and will expand to include toddler and preschool programs as the inaugural class grows. We also offer a travelers' support program for nursing moms that pays for the cost of the baby's primary caregiver or a relative to accompany mom and baby on work trips. In FY 2015, we had an average of 47 Ventura-based employees with children enrolled in GPCDC and opened TRCDC with 12 infants. At GPCDC, when space is available, children from the community may also attend. The cost for Patagonia employees is highly subsidized by the company, and we offer tuition assistance for those in financial need. For employees in the US who don't have access to the Ventura or Reno programs, and for our employees in Japan, we provide a \$50-\$100 monthly subsidy to help defray childcare costs. A key focus in the upcoming fiscal year is to analyze our work/family programs worldwide with the long-term goal of achieving greater consistency in meeting the needs of more Patagonia employees.

**4. Maternity/Paternity Leave:** In the US, we have historically provided 8 weeks of paid leave to both mothers and fathers following the birth or adoption of their first two children. Approximately 35 employees took advantage of this benefit in FY 2015.

In January 2016, we changed our paid-leave policies to improve on our current program in two key ways. First, we now provide new moms with 16 weeks of fully paid maternity leave, and 12 weeks fully paid for new fathers and adoptive mothers. Second, we give 12 weeks of fully paid family leave to employees with long-term illness or a sick or terminally ill family member. Our leave policies apply to all full- and part-time employees.

Patagonia also provides a \$10,000 stipend for each child adopted into a family, up to a two child maximum.

**5. Tuition Assistance:** We continue to offer tuition assistance to employees enrolled in an accredited college program. During FY 2015, 15 employees took advantage of the benefit, totaling \$6,800.

**6. Supportive Work Culture:** In our offices around the world, we offer a flexible work schedule and encourage our employees to participate during the day in the sports that they love. We also have showers, bikes and surfboards available at most locations. In Ventura and Reno, we subsidize the cost of healthy, largely organic

meals prepared at our on-site employee cafés.

**7. Global Code of Employee Conduct:** In FY 2015 we established a Global Code of Employee Conduct (GCEC) to reinforce our commitment to our core values and lay out some of the key principles and guidelines that underpin our operations. The goal of the GCEC is to ensure our operations are in line with local laws, respectful of regional customs and standards, and always transparent. Our code of conduct works together with regional policies and procedures maintained and administered by human resources departments in areas where Patagonia Works operates.

We also launched a phone and internet-based reporting hotline to provide a confidential, secure and anonymous way to report any work-related issues employees believe deserve a closer look. The hotline is accessed online at [www.patagoniaworks.ethicspoint.com](http://www.patagoniaworks.ethicspoint.com) or by calling the toll-free number listed on flyers posted throughout the work environment.

## Our Supply Chain

Improving working conditions in our supply chain is a challenge. Since we don't have direct control over the operating environment, we have to rely on picking the right partner, encouraging adoption of standards developed to protect workers and their working conditions, and working within usually underdeveloped regions to enforce and improve on local laws that vary widely.

**1. Fair Trade USA:** We also rely on standards and certifications developed by third-party NGOs with the expertise and scale necessary to achieve change in our supply chain. One such standard was set and is administered by Fair Trade USA. The Fair Trade program originated in the farming industry, but has since expanded to include the manufacture of apparel and other goods. Workers at Fair Trade Certified factories receive a premium for every item produced. The money goes directly into an account controlled by the workers and is designated for social, economic and environmental

development projects, or can be taken as a cash bonus. Our supply chain team recently brought on board five new Fair Trade Certified factories—four in Sri Lanka and one in the United States. They join our first Fair Trade Certified partner factory, Pratibha Syntex, in India. As a result, we've been able to expand our offering of Fair Trade Certified™ products from 10 styles in fall 2014 to 192 styles in fall 2015. Last year, workers at Pratibha earned an additional \$76,000 from the premium provided through the Fair Trade program.

**2. Migrant Worker Employment Standards:** After discovering unfair treatment of migrant workers in our supply chain in Taiwan, we worked with Verité, an NGO dedicated to ensuring people around the world work under safe, fair and legal conditions, to develop a comprehensive migrant worker standard for our factories. This standard covers every aspect of employment, including pre-hiring interactions, labor contracts, wages and fees, retention of passports, living and working conditions, grievance procedures and repatriation. In December 2014, we hosted a forum for our Taiwanese suppliers to explain the new standard that, among many things, requires labor brokers to stop charging fees to foreign workers hired on or after June 1, 2015. Factories can either pay the fees themselves or hire workers directly. We also mandated that factories reimburse currently employed workers hired before June 1 all fees charged to them that exceeded the legal amount.

We are committed to partnering with our suppliers to eliminate human rights issues in our supply chain, and we were very pleased to see their strong overall commitment to doing the right thing. And, because this form of human trafficking is not confined to Taiwan, we

applied our migrant worker standard to our entire supply chain. We also made the standard publicly available to any company that would like to adopt it. Because of these efforts, we were invited to present our work at the White House Forum on Combating Human Trafficking in Supply Chains hosted by Secretary of State John Kerry, along with Walmart, Hewlett Packard and SP Cloud

**3. Factory Code of Conduct:** We have written codes of conduct governing the factories and factory workers that make our clothing and gear. They include a hotline workers can use to report factory violations, which can lead to disciplinary action, including termination of the employment relationship. Serious breaches are reported to our board of directors. In FY 2015, we recorded and responded to six complaints. Further investigation revealed that none were serious enough to act on; all were addressed internally by our human resources team.

# Patagonia's Previously Stated Goals to Create Public Benefit

Goal	Status	Notes
Increase the use of sustainably grazed merino wool from the grasslands of Patagonia in our wool line. Grow the program to incorporate sustainable wool into our merino baselayer program.		We are reassessing our wool supply chain at this time.
Adopt SAC's Higg Index Modules: Complete the Higg Index Version 2 Environment Brand Module.		
Adopt SAC's Higg Index Modules: Work with all finished goods (assembly) factories to complete the Higg Facility Module.		
Adopt SAC's Higg Index Modules: Participate in building content for the Higg Product Module and pilot the Rapid Design Module.		
Map our materials supply chains to the sub-contractor level in order to know 100% of our materials suppliers.		
Conduct an audit of our employee policies and procedures. Update our employee handbook, distribute to all US-based employees and document that all employees have received and read the handbook.		
Expand our 1% for the Planet® giving to include giving grants to nonprofit groups that operate in areas where we source and manufacture our products.		
Train supply chain partners on the Social/Labor Higg Facility Modules and have all finished-goods facilities fill out version one of the Social/Labor Higg Index and the Environmental Higg Facility Module.		
Finish auditing our top 40 raw materials suppliers, which provide 80% of our fabrics. Begin remediation efforts on audit findings.		
Complete our first Benefit Corporation Report for the state of California.		
Incorporate more information about our social responsibility programs into our FY 2014 Environmental & Social Initiatives booklet.		



# References

Patagonia's Corporate Responsibility: <http://www.patagonia.com/us/patagonia.go?assetid=67372>

Patagonia's Design and Materials: <http://www.patagonia.com/us/innovation/materials/>

Patagonia's Environmental Initiatives booklet: <http://issuu.com/thecleanestline/docs/patagonia-enviro-initiatives-2015>

Patagonia's Footprint Chronicles: <http://www.patagonia.com/us/footprint>

Patagonia's Resource Use: <http://www.patagonia.com/us/patagonia.go?assetid=1964>

Patagonia's Supplier Code of Conduct: [http://www.patagonia.com/pdf/en\\_US/Patagonia\\_COC\\_English\\_02\\_13.pdf](http://www.patagonia.com/pdf/en_US/Patagonia_COC_English_02_13.pdf)

# Appendix

## B Corp Third-Party Certification

Patagonia is a certified B Corp, which means that our company's overall environmental and social performance is measured and independently verified by a third party, B Lab. As the primary actor in this movement, B Lab has experience certifying hundreds of companies; their social and environmental performance standards are both comprehensive and aspirational. They operate a third-party standard known as the B Impact Assessment, which scores companies' environmental and social performance on a 200-point scale. This assessment tool satisfies all of the performance characteristics and requirements established in California's benefit corporation law.

To be a certified B Corp, a company must score a minimum of 80 points. Our 2014 score was 116, nine points above our last assessment score of 107 in 2012. Due to changes in the assessment and scope of the questions, some of our scores went down. This score was independently audited by B Lab, a rigorous endeavor that confirms our score as accurate. We scored well above B Lab's median in the environment and governance categories, slightly above the median in the worker category but significantly below average in the community category.

	Patagonia's 2014 Score	Patagonia's 2012 Score	Maximum Score	Median Score
<b>Environment</b>	35	48	105	9
Environmental Products & Services	18	4	30	4
Environmental Practices	16	43	75	6
Land, Office, Plant	5	6	8	4
Energy, Water, Materials	4	11	14	2
Emissions, Water, Waste	1	2	5	1
Suppliers & Transportation	6	7	18	N/A
<b>Workers (Patagonia Employees)</b>	26	25	40	22
Compensation, Benefits & Training	20	17	27	15
Worker Ownership	<1	2	7	2
Worker Environment	6	6	6	4
<b>Customers</b>	7	0		N/A
Customer Products and Services	7	0		N/A
Products and Services	7	0		N/A
Serving those in need	0	0		N/A
<b>Community</b>	31	20	45	32
Community Practices	31	20	45	15
Suppliers & Distributors	10	9	11	4
Local	2	1	8	5
Diversity	6	3	8	2
Job Creation	3	1	8	2
Civic Engagement & Giving	8	6	10	4
<b>Governance</b>	17	15	17*	10
Accountability	14	12	13	6
Transparency	3	3	4	3
<b>Overall</b>	116	107	200	80

\* Companies have the potential to earn bonus points for having a mission lock governance structure, e.g. electing Benefit Corp status.