

patagonia works™

Annual Benefit Corporation Report

Fiscal Year 2017
May 1, 2016 - April 30, 2017



Introduction

Patagonia Works (“Patagonia”) is an outdoor apparel company with a 40-year history of environmental conservation and activism. Protecting and preserving the environment is a core business tenet as reflected in our mission to “Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis.”

Patagonia and our subsidiaries, Patagonia, Inc., Great Pacific Iron Works, Patagonia Provisions and Fletcher Chouinard Designs, solidified these blended purposes of business, conservation and social equity by becoming registered Benefit Corporations in 2012, the first day we were legally able to do so in the state of California. We also adopted six specific benefit purpose commitments, which you’ll find listed and described within, that govern our operations at the most fundamental level. This report shares the work we’ve done during our fiscal year 2017 (May 1, 2016-April 30, 2017) to advance public benefit and implement our specific benefit purposes.



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.

1% for the Planet®

A nonprofit we co-founded in 2002 that commits Patagonia to donating 1% of net revenues in cash and in-kind donations every year primarily to grassroots environmental nonprofits.

100% for the Planet

On Black Friday, 2016, we pledged 100% of our sales from Patagonia stores and patagonia.com to environmental organizations working to create positive change for the planet (\$10 million).

\$89 Million

Donated for environmental work since we started our tithing program in 1985.

985

Grant proposals funded in FY17 to 954 environmental organizations.

500

Employees who are actively involved in grant making and advocacy, and deciding which environmental organizations to support.

\$445,000

Grants made this year to nonprofit law firms and grassroots environmental groups working to defend environmental protections.

\$2.5 Million

Grants made to support the fight to protect and preserve public lands in FY17.

Highlights

Protecting Our Public Lands

We believe that one of the most effective means of conservation is through federal designation of public lands as national monuments. Many groups we've supported have worked over the years to obtain national monument status for areas warranting protection. In FY17, groups we supported secured designations for the Gold Butte National Monument in Nevada and Bears Ears National Monument in Utah.

Soon after, an executive order issued by the president mandated a review of 27 national monuments established over the past 20 years. Many of these special places are now under threat of being significantly shrunk or rescinded altogether. In response, we established an internal legal defense grants council to quickly assess and deploy grants to nonprofits working to defend environmental protections through litigation, increased our funding of public lands and are prepared to defend national monuments ourselves as plaintiffs in lawsuits challenging any action to reduce or rescind them.

Challenges

Measuring Impact at the Grassroots Level

Our giving strategy historically has been to prioritize grants to smaller, grassroots organizations working on issues in their own backyards. With thousands of grant applications and hundreds of grants given each year, the direct impact of our funding can be difficult to assess. As our giving grows, and the issues facing our planet become more urgent, we need to continue to advance the scope and scale of our giving to ensure the impact is fully realized.

Activism Can Be Polarizing

We take a stand on issues that are important to us, and that can cross over into what may be perceived to be politics. This may alienate some customers who don't agree with our position or feel that Patagonia should stick to selling clothes and keep our opinions to ourselves. Activism and advocacy are critical to achieving our mission. We'll always act, even if we lose some business along the way.



Build the Best Product With No Unnecessary Harm

We endeavor to build the best products, while causing 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 minimal 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 our products, including repair, reuse and recycling.

8.77

Average quality score on a 1-10 scale (10 being best), against our internal Patagonia Design Quality Attributes rating system for the 213 new products in our Spring '18 product line, compared to 8.9 in same season last year. This rating process serves as a way to push our design teams to improve the overall quality, performance and environmental/social responsibility of our products.

0.36%

Quality returns in 2017 as a percent of sales, down from 0.41% in 2016. Returns due to poor fit were at 1.8% as a percent of sales, down from 1.85% in 2016.

49%

Fabrics by weight that are made from recycled (29%) or renewable (20%) sources.

24%

Of all FY17 (F16/S17) products that are Fair Trade Certified™ sewn, up from 20% in the prior fiscal year (F15/S16).

26,000

Number of apparel workers who have earned a Fair Trade premium for their labor and/or received improved benefits from Patagonia's participation in the Fair Trade USA program.

100%

Of our board shorts and swimwear are Fair Trade Certified™ sewn, 48 styles in all.

90%

Of our Tier 1 finished-goods suppliers trained through our grievance system program to build effective and trustworthy two-way communication channels.

28

Factories (13,000 workers) trained in comprehensive fire safety.

95%

Of materials we use made at facilities managed under our Chemicals and Environmental Impacts Program.

40+

Patagonia product care and repair guides, in six languages, available on our wornwear.com website.

70,337

Garments repaired globally (US, Europe, Japan), of which 50,295 were repaired in our Reno, Nevada, repair center—the largest apparel repair center in North America.

54

Repair centers located in Patagonia stores all over the world that repair clothing for free or for a nominal charge.

17,272

Pounds of Patagonia products we recycled, because we couldn't repair them, up from 13,902 in 2016.

MATERIAL SOURCES	2015	2016	2017
Virgin petroleum-based products (POLYESTER/NYLON)	58%	54%	51%
Recycled materials	24%	26%	29%
Cotton and other plant-based materials	15%	18%	19%
Wool and other animal products	3%	2%	1%

WORN WEAR FISCAL YEAR ENDED APRIL 30	2015	2016	2017
Number of garments repaired in Reno	37,000	44,000	50,295
Total cost of Reno Repairs Dept. (USD)	\$1.85M	\$2.2M	\$2.92M
Number of Patagonia items recycled (IN UNITS)	3,615	13,902	17,272
Worn Wear Tour attendance (US + EUROPE)	11,075	9,920	90,085
Number of used items traded in (US RETAIL)	1,584	1,392	2,622

Highlights

Recycled Down

We launched our recycled down collection in fall '16 with 15 styles, and increased it to 18 styles in fall '17. Recycled down is a mix of 600-fill-power goose and duck down reclaimed from cushions, bedding and other used items that can't be resold. By plucking some of our down (and associated fabrics) from the trash, we reduce discards and help expand and add value to the recycling stream.

Clean Color Collection

In our S17 line we used the byproducts of food waste, dried beetles and the poop of silkworms (among other things) to create a line of clothing dyed with natural ingredients. Why the alchemy? Because dye is dirty. For the Clean Color Collection, we're experimenting with a line of natural dyes, sourced from 96% renewable resources.

Fixing the Food Chain

We continue to add new products to our food line, Patagonia Provisions, finding partners who are also looking to radically reimagine the food system. This year we worked with Hopworks Urban Brewery to create Long Root Ale[®],

a beer made with Kernza[®], a perennial grain grown using regenerative agriculture practices. We also now offer three different breakfast grains made of organic whole grains, buckwheat and fruit.

Challenges

Conflicts Between Performance and Environmental Sustainability

Our top priority when designing and building products is to make durable, quality products that deliver maximum performance. We believe that quality is the most important environmental attribute of a product, because the longer it's used the less resources it takes to replace it. At times, prioritizing quality comes at a cost to the planet, but we examine all sides along the way in our pursuit to build the best product causing the least amount of harm.

Conflicts Between Performance and Social Responsibility

We work to implement supportive working conditions in our supply chain, but sometimes the most technically adept suppliers may not have the highest social responsibility standards. When faced with this situation, we typically work with them to increase their standards, always aiming for continuous improvement.



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.

100%

Percentage of solar-generated electricity we use to power our newly remodeled photo and video studio at our Ventura campus.

100%

Percentage of wind-generated electricity used at our Amsterdam office.

45%

Percentage of electricity generated by renewable energy used in our Tokyo stores.

75%

Percentage of solar-generated electricity used at our Australian headquarters and Torquay store.

100%

Percentage of irrigation water used on landscaping at our Ventura campus photo studio that comes from a condensate capture system on the HVAC system.

855,680

Single occupant vehicle trip miles averted through our employee Drive-Less Program, a 5.6% increase from FY16.

32

Patagonia stores that completed an environmental-impact assessment addressing their use of energy, water and waste.

ELECTRICITY USE
(KWH)

SCOPE 1 & SCOPE 2 EMISSIONS
(TONNES CO₂E)

	FY16	FY17	FY16	FY17
North America	5,165,556	5,498,075	2,679	2,838
Japan	941,604	1,167,189	519	712
Australia	130,435	135,565	104	135
South Korea	-	166,258	-	89
Europe	662,238	557,190	260	190
South America	114,239	88,054	55	38
TOTAL	7,014,072	7,612,331	3,617	4,002

Highlights

Sustainability Principles

We developed and institutionalized a number of principles used by internal teams and individuals to help guide Patagonia's purchasing and ensure we are following our mission statement to cause no unnecessary harm. These principles cover things like what type of paper to buy, how to evaluate the environmental efforts of an outside vendor, guidelines on selecting materials in our merchandising and building processes, and what types of energy we prefer.

The following is a list of our guiding documents:

- [Preferable Purchasing Principles](#)
- [Responsible Service Provider Principles](#)
- [Sustainable Building Principles](#)
- [Paper Procurement and Use Principles](#)
- [Packaging and Merchandising Principles](#)
- [Global Recycling and Upcycling Principles](#)
- [Energy Principles](#)

Retail Zero-Waste Week

In June, we piloted a Zero-Waste Week in our Vancouver store, and then expanded it to our North American stores and many international locations. Our goal was to think through ways we can further reduce waste as a company and as individuals, and then implement those learnings through the rest of the year. Each store conducted a waste audit, hosted daily zero-waste clinics, came up with 20-plus zero-waste challenges, and held store events, such as film screenings.

Challenges

Gathering Accurate Data

Gathering accurate data on our use of resources continues to be a challenge. Measuring energy and water use at our own facilities is easy, but coming up with reliable waste data is much harder. Many locations have shared waste containers, or waste haulers only report the number of bins collected, not their weight or volume. We will continue to work this year to find better ways to measure and manage our waste.

Generating Renewable Energy

We continue to run into space and ownership constraints that prevent us from installing renewable energy generation at our owned and/or operated facilities. Much of our own energy footprint lies within our retail operations, but as most of our stores are leased spaces located in downtown areas, there is limited or obstructed roof space for on-site renewables. We are pursuing projects at the locations we do own that have favorable conditions for generating renewable energy. And we are continuing to investigate other avenues, such as community solar and virtual power purchase agreements, for the ones we don't own.



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.

130

Number of workers, in five different factories, we trained this year in proper chemical management practices to help protect workers, customers and the environment. The training was then further developed and shared with other brands by the Outdoor Industry Association's Chemicals Management Working Group.

425

Speaking engagements—at which Patagonia employees shared information related to our culture, mission and operations—at universities, sustainability/eco-fashion events, outdoor industry gatherings, fabric/textile conferences, HR conferences and others.

2,275

Free community events we hosted at our 34 North American stores, including films, community activism, yoga classes, bike rides and environmental presentations.

10+

Short films we produced to address supply chain issues and best practices: *Fair Trade: The First Step*, describing Fair Trade as an important first step toward changing the garment industry; *Unbroken Ground*, explaining the critical role food will play in solving the environmental crisis; *Dirt Cheap*, speaking to the importance and potential of soil health in environmental action plans; and several others discussing the value of on-site child care.

31

Patagonia employees who serve on boards or in advisory roles across 45 organizations, helping to guide, support and influence the apparel industry, academic and environmental institutions.

35

South Korean businesses that convened with Patagonia Korea to discuss responsible business practices.

Highlights

Promoting a Family Work Place

Patagonia prides itself on being a “family business,” meaning that family needs are at the core of our HR policies and programs (see “Providing a Supportive Work Environment” for more details). We’ve witnessed the amazing benefits for employees of on-site child care and generous periods of maternity and paternity leave, and are working to inspire other companies to follow suit. This year, we produced a book called *Family Business*, which chronicles our innovative on-site child care program since its inception in 1983. In addition, we’ve talked up the merits of our program in many places, including formal discussions with more than 24 other companies this year.

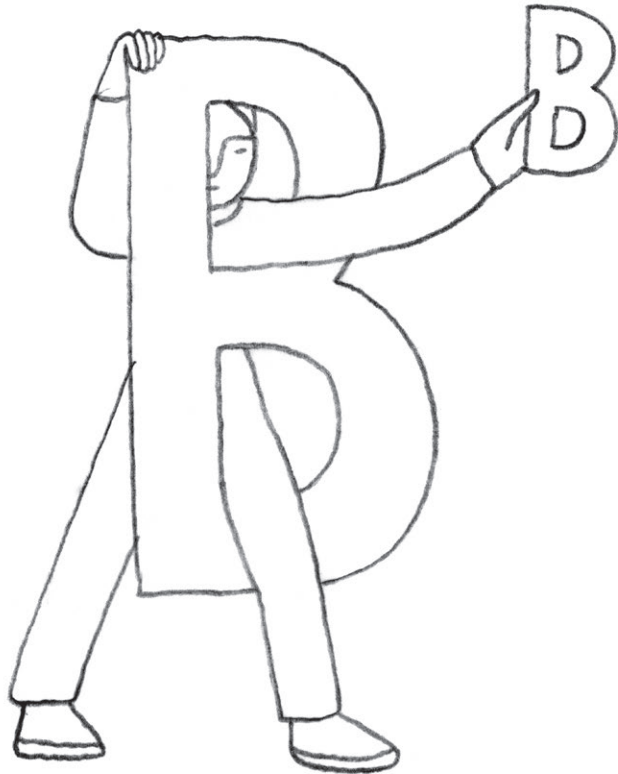
Challenges

Developing Standards for Adoption

In the hope of affecting widespread change, we devote substantial financial and staffing resources to develop, implement and publicize environmental and social standards. But working alone to develop more stringent standards, versus working collectively, has its costs.

Exclusivity vs. Sharing

It’s common practice for a business like ours to develop an exclusive raw material or proprietary system to gain market advantage. But historically, we’ve gone against that norm, cultivating innovative products, materials and processes, and sharing them with others soon after, potentially sacrificing a competitive edge.



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.

14

Years since we first posted a list of the factories we work in worldwide, which remains a leading practice in our industry.

35

Posts or position papers we produced addressing various issues, including protecting public lands, the climate crisis, regenerative organic agriculture, responsible business practices, fair wages, durable water repellent, microfiber pollution, why we manufacture our products all over the world, and others.

68

Teams of university students who participated in the 2nd Annual Patagonia Case Competition to solve for our company how best to encourage the use of regenerative organic agriculture practices to combat climate change.

April 2017

Date our social labor program was audited and reaccredited by the Fair Labor Association, a welcome opportunity to have an independent third party assess our program. (You can read their report on the FLA website.)

Highlights

Working Toward a Solution to Microfiber Pollution

Research shows that microfiber pollution is a significant concern for the health of the environment, and the outdoor industry is taking this concern seriously. In the wash, microfibers shed from a variety of synthetic textiles (and many other products), from running shorts to fleeces, accumulating in our oceans over time. Knowing we are part of the problem, we are working to better understand the issue through research and collaboration, and address it through advanced product development and by investing in solutions. We have openly communicated our microfiber journey and the gaps in both research and solutions, which has opened us up to criticism, but we know that without being transparent about the issue solutions may never be found.

Paid-Leave Project

We shared our experience developing and administrating our paid-leave program with Panorama, a nonprofit action think tank, who partnered with The Boston Consulting Group to launch The Paid Leave Project. See <http://www.paidleaveproject.org>. The Paid Leave Project includes a comprehensive playbook that helps other companies build a business case for offering paid family and medical leave to all employees. It provides practical tools for companies to learn about paid family and medical leave in the United States, assess an approach to paid leave, evaluate the business benefits, estimate the costs, and much more.

Challenges

Enough Information or Information Overload?

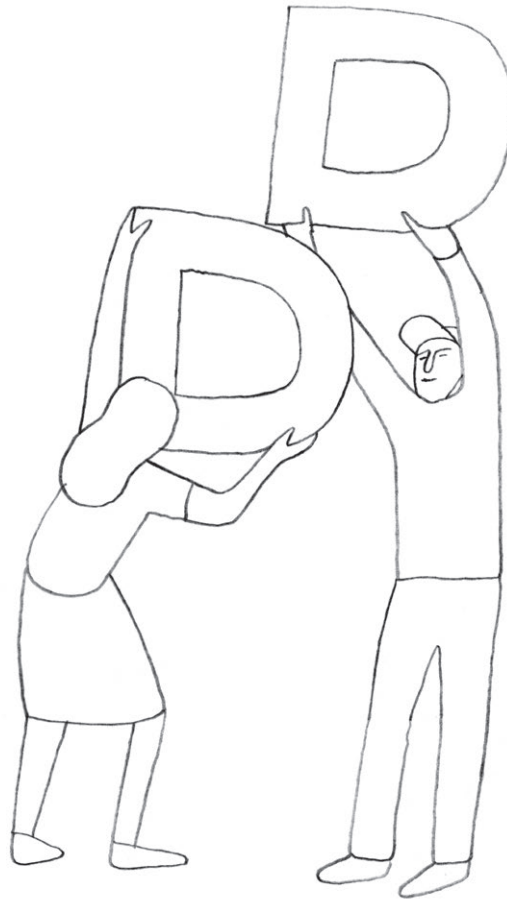
Many of the issues we highlight on our website, blog and emails are complex. Finding the right balance between transparency and information overload can be a challenge.

Full Transparency Isn't Yet Possible

When we started The Footprint Chronicles®, our goal was to show every step of the entire supply chain for all of our products. Our supply chain is deep, complicated and constantly changing, and we will never know what is going on everywhere at every moment. So we audit our suppliers regularly and share key findings along the way.

Opening Ourselves Up to Criticism

We work to be openly transparent about our business with our customers, nongovernmental organizations and other stakeholders, because we believe they deserve to know where and how our products are made—the good, the bad and the ugly. But airing our dirty laundry exposes us to criticism. And with so much information available in so many formats, it can be a challenge just to keep up.



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 day care at our corporate headquarters or subsidized child care at our other facilities.

\$0

Amount full- and part-time Patagonia employees pay for health insurance premiums, beginning the first day of work with no waiting period.

2

On-site child development programs, one at our Ventura, California, headquarters, the other at our customer service and distribution center in Reno, Nevada, for employees' children age 8 weeks through 9 years.

95%

Percentage of Patagonia moms who return to work after maternity leave (compared to the national average of 64%), thanks to on-site day care and other family-friendly practices.

\$350,000

Savings to the company attributable to post-maternity retention rates in FY17.

34%

Annual turnover percentage in Patagonia retail compared to the national average of 72%, with 8% in our corporate headquarters compared to a national average of 10%.

1

Patagonia female CEO, Rose Marcario. (Fewer than 5% of U.S. companies are led by a woman.)

45%

Percentage of Patagonia executives that are female, compared with the national average of 28%.

50%

Percentage of Patagonia's workforce comprised of women, with women earning slightly more than the men, compared to 47% women at the average U.S. company.

78

Employees who did an environmental internship this fiscal year (fully paid leave of up to two months to work for a nonprofit environmental organization).

80

Employees who participated in nonviolent civil disobedience training to gain the knowledge and resources needed to safely participate in marches and other acts of nonviolent civil disobedience.

100%

Percentage cost of bail Patagonia pays if employees are arrested for nonviolent civil disobedience.

23

Three-day weekends Patagonia employees enjoy each year through our new 9/80 work schedule, providing more time to get outdoors with family and friends and take care of the things that need to get done in life.

15,000

Dollars reimbursed to 46 employees through our continuing education tuition reimbursement program.

Patagonia child care-related benefits in FY 2017

130

Children enrolled in Patagonia on-site child care

38

Teachers employed by Patagonia

11

Number of classrooms

67

Number of caregiver days spent on the road caring for babies traveling with their parents for work

24,000

Square feet of outdoor learning space

\$84,535

Subsidies provided for Patagonia child-care programs

\$38,625

Total of stipends paid for child care (to employees who don't have access to Patagonia child care)

Highlights

On-Site Child Care

Patagonia operates on-site child development programs at our Ventura, California, headquarters and our Reno, Nevada, customer service and distribution center for employees' kids age 8 weeks through 9 years. We subsidize tuition for these programs based on need, and for employees who don't have access to a Patagonia-run program, we offer a child-care stipend ranging from \$50 to \$250 per month. When work travel is required for parents of infants enrolled in our program, Patagonia pays for the cost of a caregiver to travel with the employee parent and child. In FY17, we opened two new classrooms to accommodate increased enrollment.

A Friendlier Work Week

In FY17, we adopted a new work schedule, closing our headquarters in Ventura every other Friday to create more 3-day weekends. This helps employees blend their work and lives more seamlessly. By closing the campus we ensure that we all take part together and support each other's time away from work. We still do the same 40 hours of work every two weeks; we just do it over a 9-day period rather than 10 days.

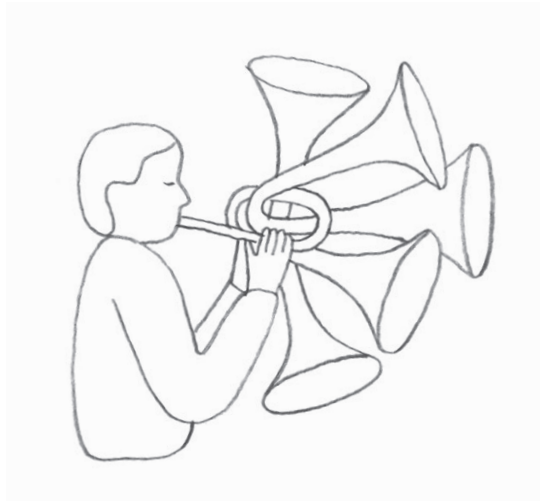
Challenges

All Employees Don't Have Access to the Same Benefits

While we try to offer consistent, comparable programs for our employees around the world, they are not all universally available. For example, we are unable today to provide on-site child care at every location due to lack of space and commuting practices.

Scaling Benefits Can Be Difficult

As Patagonia grows and our benefits, like on-site child care, become widely known, the pool of prospective employees interested in bringing their kids to work grows as well. This puts pressure on capacity and quality. If we're forced to shift gears and offer on-site child care to some employees, but not all, we could face issues with morale, recruitment and retention.



In Closing

Patagonia is a Certified B Corp, which means that our company's overall environmental and social performance is measured and independently verified by third-party B Lab. To be a Certified B Corp, a company must score a minimum of 80 out of 200 points on B Lab's Impact Assessment. We chose B Lab for the third-party verification required under the California Benefit Corporation statute because we believe their experience certifying hundreds of companies and their social and environmental performance standards are the most comprehensive and aspirational available. In 2016 our score was 152, up from 116 the previous year.

By the Numbers

A snapshot across our six benefit purposes.

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Employees who are actively involved in grant making and advocacy, and deciding which environmental organizations to support.

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Percentage of wind-generated electricity used at our Amsterdam office.

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