

patagonia works

Annual Benefit Corporation Report

Fiscal Year 2013

May 1, 2012 – April 30, 2013

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Dear Friends,

The B Corporation movement is one of the most important of our lifetime, which is why—when California passed the legislation—Yvon was the first guy in line to sign up. At the heart of the movement is the simple fact that business impacts and serves more than shareholders, or even its employees and customers: Business has an equal responsibility to the community and to the planet we all live on.

For Patagonia, a private company, becoming a B Corp ensured that we could codify into our corporate charter the values we hold dear, including our ongoing funding of grassroots environmental organizations because protecting the wild places we love and play in is so integral to our business. Moreover, as we face the challenges of global climate change, disruption of our financial markets, pressures on water and food supply and the unbridled consumption threatening our planet, it becomes ever more clear that a community of companies must now emerge to stem the tide of ecological disaster and share and evolve a new vision of responsible business.

Patagonia has been a 40-year experiment in what it means to be a responsible company. We made a choice long ago to be transparent about our imperfect journey and to share through storytelling what we learn with our customers, suppliers, competitors and the business community at large.

At the heart of our story is one of most unusual directives ever couched in a business mission statement: “Build the best product, cause no unnecessary harm, and use business to inspire and implement solutions to the

environmental crisis.” The ultimate definition of “best product” for us is one that is as simple, versatile and durable as possible. We want our customers to buy only what they need, keep what they buy from us for a very long time, have repaired what breaks, recirculate what’s no longer needed, and send back to us whatever’s used up. We will recycle or repurpose anything we’ve ever made.

Compelling product innovation, disruption of a harmful status quo and evolution of the supply chain has been part of our DNA from Yvon’s first pitons, to our shift to organic cotton and introduction of e-fibers and recycled fabrics, to our co-founding of the Fair Labor Association and the Sustainable Apparel Coalition. We are happiest when we make amazing products while taking head on some of our industry’s most challenging environmental and social problems— and working to create lasting change that lightens the burden on our overtaxed planet.

We look forward to learning from (and with) the B corp community of companies and the evolution of a brighter future for us all.

Sincerely,

A handwritten signature in black ink, appearing to read "Rose Marcario". The signature is fluid and cursive, with a large initial "R" and "M".

Rose Marcario
CEO

Introduction

Patagonia Works, the parent company for Patagonia, Inc., and its sister companies (Patagonia, Inc., Great Pacific Iron Works, Fletcher Chouinard Designs, Inc. and Patagonia Provisions, Inc.) became benefit corporations on January 3, 2012, the first day we could legally do so in our home state of California. The benefit corporation is a legal entity that enables a socially and environmentally committed company to write those values into its charter and articles of incorporation. Patagonia Works and its subsidiaries share common values, operate in a similar manner and have all adopted the same specific benefit purposes.

Our Approach to Public Reporting

Traditionally Patagonia communicates about our sustainability and corporate social responsibility efforts in a number of different ways, including through our Footprint Chronicles® and our Environmental Initiatives Booklet. The Footprint Chronicles allows customers shopping on Patagonia.com to view factory information, by product, including details about factory audit results and efforts to improve factory conditions. Our Environmental Initiatives Booklet reviews annually our environmental activities and the grants made through our 1% for the Planet® fund. This B-Corp report will recap that information, describe our performance against our specific benefit purposes, and summarize our B Impact Assessment results, which is the official assessment Patagonia has completed to meet the requirements of the benefit corporation statute.

Specific Benefit Purposes in Our Bylaws

In 2011, in preparation for our conversion to a benefit corporation, Patagonia developed specific public benefit purposes to reflect our values and mission. These were adopted by our board of directors and shareholders for each of our US-based primary companies (Patagonia, Inc., Patagonia Works, Great Pacific Iron Works, Fletcher Chouinard Designs, Inc. and Patagonia Provisions, Inc.) and written into the articles of incorporation and bylaws for each company. They may not be changed or removed without unanimous shareholder approval. As a result, they govern each company's actions at the most fundamental level. Our specific benefit purposes as they appear in our articles and by-laws are as follows:

1. 1% for the Planet: Each year, Patagonia shall contribute one percent (1%) of its annual net revenue to nonprofit charitable organizations that promote environmental conservation and sustainability, as more fully described below. Contributions shall consist of cash, products and services, and Patagonia's expenses associated with administering its Environmental Grants Department, valued at Patagonia's cost. For purposes of this specific public benefit purpose, "net revenue" means Patagonia's total sales of goods and services and revenues from other operations, less returns, discounts and allowances:

- a.** Contributions shall be made by Patagonia directly, through one or more of its subsidiaries or through patagonia.org.
- b.** Contributions will be directed largely (but not exclusively) to smaller grassroots organizations that are approved by 1% for the Planet® and operate in markets where Patagonia and its subsidiaries conduct business (to facilitate vetting of grant recipients).
- c.** Recipients in the U.S. must be tax-exempt organizations registered by the IRS under section 501(c)(3) of the Internal Revenue Code.

2. Build the best product and cause no unnecessary harm to the planet or its inhabitants: As prescribed in Patagonia’s mission statement, as set forth in Patagonia’s articles of incorporation and incorporated herein by reference, Patagonia will strive to build the best products and cause no unnecessary harm to the planet or its inhabitants by: (i) designing and fabricating the highest quality products as defined by durability, multi-functionalism 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 products, including repair, reuse and recycling.

- a.** Patagonia will rate the quality of its products, with quality defined and measured by durability, multi-functionalism and non-obsolescence, on a scale from 1-10, with 1 the least quality and 10 the highest, and then consistently produce products that average a rating of 8 or better. The index will be revised from time to time as innovation allows for improvement in the scale.
- b.** Patagonia accepts responsibility for its products from birth to rebirth, and will take back all used Patagonia products that customers return to its retail stores at no charge and, whenever feasible, facilitate the reuse or recycling of such products.
- c.** Cotton will only be used if it is certified organic, recycled, or the equivalent.

3. Conduct Operations Causing No Unnecessary Harm:

As prescribed in Patagonia's mission statement, Patagonia will conduct its operations causing no unnecessary harm by continually seeking to reduce the environmental footprint and impact of its operations in water use, water quality, energy use, greenhouse gas emissions, chemical use, toxicity and waste.

- a. Patagonia will design and construct facilities that are energy and resource efficient using green building practices, including LEED certification.

4. Sharing Best Practices with Other Companies: As prescribed in Patagonia's mission statement "to use business to inspire and implement solutions to the environmental crisis," Patagonia may share proprietary information and best practices with other businesses, including direct competitors, when the board of directors of Patagonia (the "board") determines that doing so may produce a material positive impact on the environment.

5. Transparency: Patagonia will endeavor to provide information through the 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.

- a. Patagonia will educate its customers about the environmental impacts and benefits of its products.

6. Providing a Supportive Work Environment: Patagonia will strive to provide a supportive work environment and high quality healthcare through measures, including but not limited to, providing on-site daycare at its corporate headquarters or subsidized childcare at its other facilities, and periodically allowing employees to take extended paid time off from work to volunteer with nonprofit charitable organizations in support of initiatives promoting environmental conservation and sustainability.

- a.** Health insurance benefits are provided to all employees working at least 20 hours per week and made available their first day of work (instead of after a waiting period).
- b.** Eight weeks of paid leave is provided to mothers and fathers following the birth of their first two children and adoption of a child.
- c.** Annual tuition assistance to be provided to student employees enrolled in accredited college or community college programs, amounts and qualifying programs to be determined annually by the board.

Our Performance Against Our Specific Benefit Purpose

	Benefit Purpose	FY 2013 Achievements	FY 2013 Short Challenges
1	1% for the Planet®	In FY 2013 we donated 1% of net sales, totaling \$5,602,433, to 773 nonprofit charitable organizations that promote environmental conservation and sustainability.	None
2	Build the best product and cause no unnecessary harm to the planet or its inhabitants	<ul style="list-style-type: none"> • We cofounded the Sustainable Apparel Coalition (SAC) and have been active in the development of SAC's Higg Index, working towards creating an industrywide rating system for the social and environmental performance of companies, factories and products. • We continue to use organic cotton exclusively in our cotton products. • We continue to take back all of our products at the end of their useful life to be repurposed or recycled. 	<ul style="list-style-type: none"> • We are participating in the SAC's collaborative process to create and standardize a tool that measures the impacts of products. This process takes time and we have not yet started scoring our products. • Not all of our products are made using low impact (environmentally friendly) materials.

Our Performance Against Our Specific Benefit Purpose

	Benefit Purpose	FY 2013 Achievements	FY 2013 Short Challenges
3	Conduct operations causing no unnecessary harm	We have continued to design and construct facilities (store and office remodels) that are energy- and resource-efficient. To mitigate some of the waterborne waste that flows from our facilities during rain events, we added two infiltration basins, called bioswales, to our Ventura HQ parking lots. In addition we started incorporating LED lights in our offices and retail stores.	We don't yet have the level of visibility and accountability we'd like into the full environmental footprint of our operations. We are currently working on developing better measurement tools and implementing processes for taking corrective actions based on reliable and consistent data.
4	Sharing best practices with other companies	We have shared best practices with the apparel industry through participation in various industry organizations, such as the Sustainable Apparel Coalition, Outdoor Industry Association Sustainability Working Group, and the Fair Labor Association.	Working within the framework of industry organizations can be a slow process. It's also a challenge to strike the right balance between sharing information about our business in response to the many requests we receive and getting the work done.

Our Performance Against Our Specific Benefit Purpose

	Benefit Purpose	FY 2013 Achievements	FY 2013 Short Challenges
5	Transparency	We share information about the environmental impact and benefits of our products in many different ways, including through the Footprint Chronicles®, our Environmental Initiatives Booklet, The Cleanest Line blog, catalogs, our website, advertisements, partnership with academic institutions, publication of articles and books, etc.	With so many outlets for providing information and a business that is increasingly complex, it has become difficult to share information in a way that makes sense and is available in one place. We are working on ways to improve in this area, especially when it comes to consistently tracking and reporting on the environmental and social impact of making our products.
6	Providing a supportive work environment	We offer a generous benefits package, providing health insurance to all employees working at least 20 hours per week, without a waiting period; eight weeks maternity as well as paternity leave; and provide annual tuition assistance to student employees enrolled in accredited college programs. We also have an on-site, subsidized, company-run child care program in our Ventura headquarters and provide a child care subsidy to employees working in our Reno distribution center.	As our business grows and becomes more complex, it becomes more difficult to sustain the culture that our company was founded upon, described in the book <i>Let My People Go Surfing</i> . We have to work proactively to try and maintain elements that have always been a natural part of how we operate.

B Lab Third-Party Certification

As part of our benefit corporation status we are a certified Benefit Corporation, which means that our company's overall environmental and social performance is measured and independently verified by a third party, B Lab. B Lab is a nonprofit organization that certifies B corporations in the way Fair Trade USA certifies Fair Trade coffee or USGBC certifies LEED buildings. In addition to certifying companies that are environmentally and socially responsible, B Lab is also the primary organization working across the country and throughout the world to pass legislation establishing the benefit corporation as a distinct type of corporate entity whose environmental and social values are recognized and enforceable under state corporate law. The benefit corporation movement has grown, from 500 certified B corporations at the time we were first certified to more than 1,000, operating across 60 industries in 30 countries and established in 27 states (California was No. 7).

B Lab, as the primary actor in this movement, 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 (bonus points can theoretically result in a higher score). To be certified, a company must score 80, which is also the median score of companies tested.

We chose the B Lab Impact Assessment for quantifying our environmental and social performance because it is the leading tool for this purpose and because it satisfies all the performance characteristics and requirements established in California's benefit corporation law. It does not track our unique specific benefit purposes exactly but instead it focuses on four general categories: environment, workers, community and corporate governance and helps to quantify how we fulfilled our benefit corporation purpose of promoting general public benefit. Our score was 107. 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 B Impact Assessment Score

	Patagonia's Score	Maximum Score	Median Score
Environment	47	105	9
Environmental Products & Services	4	30	4
Environmental Practices	43	75	6
Land, Office, Plant	6	8	4
Energy, Water, Materials	11	14	2
Emissions, Water, Waste	2	5	1
Suppliers & Transportation	7	18	N/A
Wholesale/Retail Environmental	18	30	N/A
Workers (Patagonia Employees)	25	40	22
Compensation, Benefits & Training	17	27	15
Worker Ownership	2	7	2
Work Environment	6	6	4
Community	20	45	32
Community Products & Services	0	N/A	15
Community Practices	20	45	15
Suppliers & Distributors	9	11	4
Local	1	8	5
Diversity	3	8	2
Job Creation	1	8	2
Civic Engagement & Giving	6	10	4
Governance	15	17	10
Accountability	5	6	6
Transparency	3	4	3
Mission Lock	7*	7*	N/A
Overall	107	200	80

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

Patagonia's Efforts to Create Public Benefit

Successes and Short Challenges

Environment

At Patagonia we believe a company's environmental impact encompasses the extent to which its facilities, products, services, suppliers and operations affect the environment. We recognize that everything we do has an impact and we work every day to ensure that we understand that impact and that we are taking measures to mitigate it. As part of our mission, Patagonia works to build the best products and cause no unnecessary harm to the planet or its inhabitants. To us this means making functional, long-lasting products backed by our Ironclad Guarantee. In support of this, we continuously examine the materials and resources used in our products and our manufacturing practices to evaluate how they are made and how they impact the planet. We've made great strides in this area, but know there is always more to do. B Lab gave us high scores on many fronts: We formally engage our suppliers to reduce the environmental impact of Patagonia products throughout the supply chain, use a third-party organization to audit and verify our practices, reclaim used products for recycling or repurposing, use organic and recycled materials, audit our materials for toxicity, operate a LEED-certified distribution center, recycle our office and warehouse waste and compost our kitchen waste, serve organic or sustainable food in our cafes, generate electricity from solar panels at our headquarters and warehouse, use recycled-content, FSC-certified paper in our catalogs, have low-flow toilets, incorporate energy-efficiency technologies and provide incentives for carpooling, and taking alternative transportation.

Environment: Initiatives FY 2013

Texas Organic Cotton. We've used only certified organically grown cotton in our cotton products since 1996. One of our first partners in growing organic cotton in the mid 90s, the Texas Organic Cotton Marketing Cooperative (TOCMC) is still farming strong out on the high plains of Texas. We reintroduced this US based organic cotton source into our Spring 2013 line. It was used in 15 different styles.

Sustainably Grazed Wool. In a novel partnership with The Nature Conservancy and an Argentine benefit corporation called Ovis XXI, we are restoring degraded grasslands across the Patagonia region by buying merino wool from sustainably grazed sheep raised under a holistic management protocol known as the Grassland Regeneration and Sustainability Standard (GRASS). In FY 2013 the merino wool from this program was in all of our merino socks.

100% Traceable Down. In 2011, we embarked on an ambitious project to examine every link in our down supply chain to verify sound animal welfare. Our Traceable Down Standard was completed, tested and published in FY2013, seeking to ensure that all Patagonia down could be traced back to birds that were never force-fed and never live-plucked. Verification of this standard includes a holistic traceability audit consisting of a physical inspection of the entire supply chain, from parent farm to factory, performed by an independent, third-party traceability expert. Our standard provides the most robust assurance of animal welfare in the apparel industry. We were able to offer the first collection of 100% Traceable Down Products in our Spring 13 line, and by fall 2014, our entire down supply chain will move to 100% Traceable Down.

bluesign® System Partner. As a bluesign® system partner, we are committed to the highest level of consumer safety and the continuous improvement of environmental performance in our textile supply chains by applying the bluesign system to help conserve resources and minimize impacts on people and the environment. In FY 2013 the number of our materials suppliers working with the bluesign system increased to 45.

Environmental Factory Pilot Audits. In 2011, we developed an environmental factory audit tool that incorporated best practices for facility level environmental compliance. The tool included criteria from Global Social Compliance Programme's (GSCP) environmental audit tool, Higg Index facilities module, and Timberland's factory environmental audit tool. In 2012, we were able to pilot this new tool in five different factories with much success. Until the program is fully tested, we continue to conduct environmental, health and safety audits during our social responsibility assessments.

Finished-Goods Factory Waste Management. In FY 2013 we conducted an in-depth survey which revealed 72% of our finished-goods factories have a recycling program for fabric scraps to ensure they do not end up in a landfill.

Common Threads Partnership. Implemented to keep Patagonia® products in use and ultimately out of the landfill, Patagonia's Common Threads Partnership encourages customers to buy only what they need and provides them with ways to repair, reuse and recycle our clothing and gear. To that end, our repairs department mended 24,710 products—a 31% increase from FY 2013. We also facilitate reuse and resale of

used products via a Patagonia eBay page, take back and resell customers' used Patagonia clothing at our store in Portland, Oregon, and accept all worn out Patagonia products for recycling at our retail stores and distribution center.

Sustainable Apparel Coalition. We co-founded the Sustainable Apparel Coalition (SAC) in 2010 to influence the apparel, footwear and home goods industries to reduce environmental harm and create a positive impact on the people and communities associated with its activities. Today the organization has more than 100 members. In July 2012, SAC launched the Higg Index—a tool to measure the impacts of a company, its supply chain and the products it makes. In FY 2013 we completed the environmental Higg Index brand module. We also completed six product modules. Since the release of Higg 1.0, Patagonia, Inc. has been working to integrate it into our internal design and development systems.

Food Production—Patagonia Provisions. Patagonia Provisions seeks to provide natural and/or organic food products that cause no unnecessary harm to the planet or its inhabitants and to create environmental and socially beneficial change through market forces. Provisions introduced a salmon jerky in 2011 but decided to stop making the jerky in FY 2013 after concluding that product taste and the sourcing and manufacturing process could be improved. For the salmon product going forward, Provisions is working closely with SkeenaWild, a Canadian fish conservation organization, and a group of expert advisors in the salmon fishing industry to identify sustainable, in-river fisheries that use tangle-tooth nets, beach seines and traditional First Nations fish wheels and dip nets. Provisions believes that these selective-harvest techniques produce higher quality fish and, most importantly, allow non-salmon species to survive and spawn.

Ventura HQ Stormwater Runoff Project. In FY 2013, we built two bioswales to capture and naturally filter storm water runoff from our Ventura, California, headquarters. Our headquarters is located about an eighth of a mile from the Pacific Ocean. By capturing and filtering stormwater on site we are able to prevent additional polluted runoff from entering California waters.

LED Lighting. In FY 2013, we retrofitted our product-design studio in Ventura with LED lighting that uses approximately 38% less electricity.

Heating, Cooling and Ventilation. We installed a new heating, ventilation and air-conditioning system in the largest building at our Ventura headquarters with SMART GRID readers to ensure the system is circulating air appropriately.

EPA Green Power Partner. We became an EPA Green Power Partner in FY 2013 because we use approximately 1 million kWh per year and generate at least 10% renewable energy from two on-site solar arrays.

Alternative Commuting Incentive. North American employees receive \$2 per trip when they forgo single-driver car trips in favor of mass transit, bicycling, carpooling, etc. More than 800 participated in the program in FY 2013, which reduced travel miles by 597,272, prevented 438,036 lbs. of carbon from being produced and 22,579 gallons of fuel from being used.

Environment: Challenges

A key challenge in the environmental area of our business is to ensure that our environmental programs are robust and consistent across all the countries where we operate as well in our various product supply chains. We are constantly working toward integrating environmental initiatives into established internal systems. We have corporate environmental impact tracking programs in place and we have begun working with our supply chain vendors to measure their baseline environmental impacts (water use, energy use, CO2 emissions). The next step for us is to analyze this data and use the findings to develop solutions that minimize our overall environmental impacts.

Environment: Goals for FY 2014

- 1.** Increase the use of sustainable wool from the grasslands of Patagonia in our wool line. Grow the program to incorporate sustainable wool into our merino baselayer program.
- 2.** Adopt SAC's Higg Index Modules.
 - a.** Complete the Higg Index Version 2 Environment Brand Module.
 - b.** Work with all Finished Goods (assembly) factories to complete the Higg Facility Module.
 - c.** Participate in building content for the Higg Product Module and pilot the Rapid Design Module.
- 3.** Map our materials supply chains to the subcontractor level in order to know 100% of our materials suppliers.

Workers

Patagonia provides numerous benefits and a supportive work environment for our employees. We scored well, largely due to our generous employee benefits and our healthy work environment. We offer health insurance to all full-time and part-time employees and their families and pay 100% of premiums for full-time employees. Additionally, we provide dental and disability insurance, flexible spending accounts and domestic partner benefits to all full-time and part-time employees. We offer a 401(k) program to full-time and part-time employees, with a company match, provide generous vacation time, sick time, and maternity as well as paternity leave. We offer on-site childcare at our Ventura headquarters and provide subsidies for child care options outside of our Ventura child care center. We have a tuition reimbursement program, conduct annual performance appraisals and have written, well-circulated employee policies. Both our Ventura headquarters and Reno distribution center have on-site cafés that offer healthy, delicious and, to the degree possible, organically grown and locally sourced foods. We also offer flextime, telecommuting and job sharing, and have good occupational health and safety practices.

Workers: Initiatives FY 2013

On-Site Child Development Center. We provide a best-in-class, company-run, on-site child development center for employee children from roughly 4 months of age up to pre-K. We also offer after-school and summer programs for employee children grades K-3. In FY 2013 we had an average of 40 Ventura based employees with children enrolled at any particular time. When space is available, children from the community may also attend. We offer a child-care subsidy for employees who choose an alternative to our on-site program or work at our locations that don't have on-site childcare. During 2013, we had 9 employees take advantage of the subsidy.

Health Benefits. We provide and pay for health insurance to all full-time and part-time employees working at least 20 hours per week, effective their first day. In January 2012, we moved to UMR to improve medical benefits for employees. With this change, we increased our acupuncture coverage, added the massage therapy benefit, and lowered the in-network deductible to \$250. These increased benefits remained in place in FY 2013.

Retirement Benefits. Patagonia matches employee contributions to the Vanguard 401(k) retirement plan equal to 50% of the first 5% an employee contributes. In addition and regardless of participation in the program, the company pledges a 3% contribution annually to all eligible employee accounts. In FY 2013, the company made an additional contribution equal to 5% of an employee's base wages.

Maternity/Paternity Leave. We provide eight weeks of paid leave to both mothers and fathers following the birth or adoption of their first two children. Approximately 37 employees took advantage of this benefit in FY 2013.

Employee Environmental Internship Program. Patagonia contributed \$110,000 in FY 2013 to pay wages and benefits for approximately 120 employees who volunteered a total of 7,493 internship hours with 40 different nonprofit environmental organizations around the world.

Workers: Challenges

Globally we have over 2000 employees. Our primary business is in North America, with our headquarters located in Ventura, California, a distribution center in Reno, Nevada, and retail locations located across the US. Japan and Europe are also important markets for us. Secondary markets include Korea, South America, Australia and Hong Kong. This global distribution of our business results in a decentralized employee community. It is a continual challenge for us to ensure that a consistent employee experience is replicated across all of Patagonia locations.

Workers: Goals for FY 2014

Conduct an audit of our employee policies and procedures. Update our employee handbook, distribute to all U.S.-based employees and document that all employees have received and read the handbook.

Community

Patagonia manufactures a diverse mix of products all over the world. Each of our supply chain partners is an integral part of our business, and we do our best to ensure we have a positive impact in the communities in which we operate. We have long-term relationships with our primary suppliers and go through a rigorous four-fold business, quality, social and environmental screening process before selecting our supply chain partners. We are an accredited member of the Fair Labor Association, we visit and audit our suppliers' facilities and, have a formal Supplier Code of Conduct, for which compliance is both internally and independently verified, and we use an established methodology for quality assurance.

Patagonia and its community of employees have been active participants in civic life throughout the company's history, and this year was no different. Civic engagement is defined as individual and collective actions designed to identify and address issues of public concern. In addition to offering employees throughout our worldwide operations opportunities to support environmental work through volunteerism, the company pledges 1% of sales to the preservation and restoration of the natural environment.

Below we include the programs we have implemented that address our suppliers and distributors as well as our civic engagement. In the challenges section below, we address our shortcomings in the local, diversity and job creation areas of the B Lab assessment.

Community: Suppliers and Distributors Initiatives FY 2013

Growing Our Corporate Social Responsibility Team. In fiscal year 2013, we expanded our supply chain social and environmental responsibility program. We increased our Corporate Social Responsibility (CSR) staff from two full-time staff to six, which has enabled us to conduct more and broader social and environmental factory audits. We hired three CSR field managers based in Thailand, Vietnam & Hong Kong dedicated to working with our assembly factories to sustainably correct problems. Fiscal year 2013 supply chain activities include:

Supplier Code of Conduct. This year we revised our Supplier Code of Conduct and matching benchmark document, two tools we use to set and communicate core human rights and environmental standards and to measure compliance in our supply chain. The revisions include new provisions regarding treatment of employees, traceability, animal welfare, community and code communication and “living wage” language.

New Tools to Improve Factory Working Conditions. We developed and implemented new tools to assist factories to correct excessive overtime hours and comply with China’s complex social insurance requirements. We also added a completely updated section in our social responsibility audit tool which better detects human trafficking and other forms of forced labor especially in factories with migrant or imported workers.

Fair Labor Association (FLA®). We are a founding and fully accredited member of the Fair Labor Association since 2001. Our FLA-related initiatives include:

- a.** Two of our suppliers in Vietnam took FLA's Fair Wage self-assessment, which evaluates all 12 dimensions of a factory's wage system and makes recommendations as to how factories can support higher employee remuneration.
- b.** We continue to work on fulfilling FLA's Responsible Purchasing Practices obligations (Principle 8). This involved staff training on our internal responsible purchasing practices for all of our sourcing, product development and material developer employees. The training raises awareness on how internal business decisions can negatively impact workers in our factories and helps prevent them.
- c.** We participated in rewriting FLA's principles on responsible purchasing practices for participating companies and suppliers. Our own responsible purchasing practices program was structured to comply with the new language.
- d.** We also participated in FLA's® RESPECT project, polling our European customers on their preferences and expectations regarding Patagonia's responsible buying practices. Our suppliers in China also participated in an FLA poll on brands' impacts on their businesses. The FLA released this report in 2012.

Four New Fair Labor Association (FLA) Participating Suppliers. Four new Fair Labor Association (FLA) Participating Suppliers. Four supply chain partners that manufacture our clothing became FLA Participating Suppliers. As of spring 2013, we have 14 factories in six countries that are participating suppliers. In implementing the same FLA Principles Patagonia must adhere as part of our membership, these suppliers strengthen their social responsibility programs which leads to a greater potential of achieving sustainable compliance in all human rights areas.

The International Labor Organization's Better Work Partnership. Sponsored by the United Nations, this partnership seeks to achieve long-term compliance with national labor laws and core labor standards through factory assessments and trainings over a period of three years. We increased our participation in this endeavor to the top level of "Partner" in 2012 (we had previously been "Participants"). We also increased the number of Better Work factories we work with from four to six, which included adding a factory in Nicaragua to the program. Patagonia's six factories are enrolled in three of the seven countries in which the program operates.

Signatory to Uzbek Cotton Campaign. In October 2012 we signed the Responsible Sourcing Network's Uzbek Cotton Campaign pledge, which seeks to boycott cotton from Uzbekistan because of the government's use of child labor during harvest times. Even though we only buy organic cotton, which is not grown in Uzbekistan, we asked all of our cotton assembly factories to sign an affidavit saying they do not buy cotton for Patagonia from Uzbekistan. We also encouraged them to sign the Cotton Campaign pledge.

Health Enables Returns Project Participation. We signed on with UL Responsible Sourcing to allow our third-party auditors to conduct special factory worker interviews during assessments in our finished-goods facilities. Female workers, who comprise the majority of the workforce in apparel factories, were interviewed about their health and overall wellbeing in an attempt to find out what factories can do to better help them. The data collected was provided to the Business for Social Responsibility's Health Enables Returns project.

Higg Social/Labor Index Pilot Participation. In early 2013 we participated in piloting the Sustainable Apparel Coalition's social/labor Higg Index module for factories. We selected several finished goods factories and a few raw materials suppliers to take the Higg Index self-assessments and provide feedback on the Fair Factories Clearinghouse web platform. Also, our director of social and environmental responsibility participated in developing the social/labor Higg index modules for both brands and factories in June 2012.

Four-fold Screening and Scoring Process For Raw Materials Suppliers. The Materials Development and Social and Environmental Responsibility departments developed and implemented a "four-fold" screening process for raw materials suppliers (fabric and trim mills). The four-fold process considers business, quality, social and environmental performance in the selection of new suppliers. Each department has equal veto power over the decision to start working with a new fabric supplier. We have the same four-fold process in place for selecting new assembly factories. The lack of standards and transparency at the raw-materials supplier level is an industrywide problem, and we have made it a key focus for 2013-2014.

Expansion of Raw Materials Social Responsibility Audits. We increased the number of audits from the top 25 raw materials suppliers to the top 40, which represent 80% of our fabric suppliers.

Usage of Labor Voices Technology in Monitoring. In 2012 we were introduced to Labor Voices, a non-profit group that uses mobile phone texting to poll factory workers. We immediately contracted with Labor Voices to poll workers at one of our raw materials suppliers in India. The questions focused on levels of satisfaction with their jobs and freedom of association issues. The final survey analysis Labor Voices compiled was very helpful in assessing conditions at this facility.

Community: Civic Engagement and Giving Initiatives 2013

Employee Volunteerism. Employee Volunteerism. In FY 2013, Ventura-based employees organized and hosted the annual Salmon Run 5K, which raised more than \$13,000 for Friends of the Ventura River. They also took part in the Backyard Collective, which is organized and run by the Conservation Alliance, and volunteered during a Martin Luther King Jr. day of service and several other volunteer days. Reno-based employees volunteered throughout the year, providing more than 600 volunteer hours to environmental groups including the Sugar Pine Foundation, Mono Lake Committee and Sierra Buttes Trail Stewardship.

1% for the Planet®. We give 1% of our annual sales to nonprofit charitable organizations that promote environmental conservation and sustainability. In FY 2013, we gave 773 grants that totaled \$5,602,433 to groups in 18 countries. In addition to cash given through our grants program, our marketing department provided pro bono editing, graphic design and print coordination for nonprofit environmental groups valued at \$8,190. Recipients included NOLS, Buffalo Field Campaign, the Conservation Alliance, Ojai Raptor Center, Salmon Run and Ventura Hillside Conservancy. We also donated more than \$500,000 worth of new and used clothing and gear to various nonprofit causes worldwide.

Matching Donations Program. We match dollar for dollar any employee donations to charities of their choosing. In FY 2013, employees and Patagonia donated \$109,064 to 234 local, national and international charities.

Community: Challenges

We scored lower than we would prefer in the Local, Diversity and Job Creation community sub-sections. A shortcoming of Patagonia in this section is our lack of formal corporate policies giving preference to women or minority-owned suppliers and a local purchasing strategy or policy. B Lab values localism, as does Patagonia in principle, but it is very challenging to execute in practice. As a global operator, we will be unable to improve many of these community scores. We cannot supply much of our clothing from suppliers located less than 500 miles from our headquarters or less than 500 miles from where our end products will be used. Our sourcing strategy does not formally support national economic development or import substitution. We do, however, have a few small suppliers in southern California and intentionally maintain those business relationships to support both business needs and the local community. We also score low on inclusion of underrepresented populations (except women, who are well represented at all levels of the company). For example, at this time we do not provide specific opportunities in low-income communities or create opportunities for the chronically unemployed. We have our eye on these issues and are looking for ways to include programs in these areas in future years.

Community: Goals for FY 2014

- 1.** 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.
- 2.** 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.
- 3.** Finish auditing all top 40 raw materials suppliers which make up 80% of our product fabric materials. Begin remediation efforts on audit findings.

Governance

We do have an explicit commitment to environmental stewardship, which is shared with employees, incorporated into goals, and reviewed by the Board of Directors. We have formal anti-corruption controls, independently audited financials, produce clear statements on our mission-related activities and share key quantifiable targets. We work to improve industrywide social and environmental practices and do not use a shell to minimize corporate taxes. We offer an ironclad product guarantee and solicit customer feedback on the quality of our products and service. We make a deliberate effort to be transparent about our business operations and to share best practices with other companies.

Governance: Initiatives 2013

Industry engagement. Patagonia participates in a number of organizations that work on environmental and corporate social responsibility. This provides us the opportunity to share our expertise and best practices and to learn from others. Below you'll find a list of organizations we belong to.

Industry Engagement

Organization	Patagonia Representation
1% for the Planet	Board Member Member Company
American Sustainable Business Council	Member Company
Bicep	Member Company
bluesign	Advisory Board Member System Partner
Clinton Global Initiative	Member Company
Corporate Eco Forum	Member Company
Fair Factories Clearinghouse	Member Company
Fair Labor Association	Board Member Member Company

Industry Engagement

Organization	Patagonia Representation
International Labour Organization's Better Work Program	Partner Company
OIA Business Advisory Council	Member Company
OIA Chemicals Management Working Group	Group Chair
OIA Recreation Advisory Council	Member
OIA Social Responsibility Working Group	Members
OIA Sustainability Working Group	Advisory Committee Member Company
OIA Traceability Working Group	Member Company
OIA Trade Advisory Council	Member Company
Save the Colorado River	Grants Review Committee
Textile Exchange	Board Member Member Company
The Conservation Alliance	Board Member Member Company
The Sustainable Apparel Coalition	Board Member Member Company

Academic Collaboration. In FY 2013, we worked with graduate students from UC Santa Barbara to explore ways to incorporate low-carbon-emitting fuels into our U.S.-based transportation system. They found that by increasing the density of packaging in our inbound and outbound shipments, we could significantly reduce fuel consumption and CO2 emissions.

Footprint Chronicles®. Through our Footprint Chronicles® webpage on patagonia.com, we share the details of the social and environmental conditions in our supply chain. The site includes CSR profiles of 71 cut-and-sew factories and 28 textile mills. We've also linked these profiles to approximately 1,300 product pages on patagonia.com so shoppers can learn more about the factories and mills that produced the product they are thinking about purchasing.

Patagonia's Footprint Chronicles® Reference Library and The Cleanest Line® Blog. We provide detailed information about the materials and technologies we use in our products on our Footprint Chronicles® Reference Library. Additional information on the impacts of various materials and products is included in on our blog, The Cleanest Line®. "The Lowdown on Down" blog post, for example, explains the challenges we faced tracing our down supply chain to ensure the birds that supplied us with down were neither force-fed nor live-plucked, and told of the steps we'd taken to assess down traceability management systems and animal welfare.

Governance: Challenges

We have a number of outlets for sharing information and have begun using various tools for tracking performance against our values and related commitments, but this is our first attempt to bring everything together in a comprehensive report. One of the challenges we've found through this process is that our internal systems and processes for gathering and reporting on information are not well established. We are working towards streamlining our audit and reporting processes to ensure that we don't spend more time measuring and reporting on what we're doing than we do in making improvements.

Governance: Goals for FY 2014

1. Complete our first Benefit Corporation Report for the State of California.
2. Incorporate more information about our Social Responsibility programs into our FY 2014 Environmental Initiatives booklet.

References

Patagonia's Corporate Responsibility:

www.patagonia.com/cr

Patagonia's Materials and Technology:

www.patagonia.com/materials

Patagonia's Environmental Initiatives Booklet:

www.patagonia.com/2014grants

Patagonia's Footprint Chronicles:

www.patagonia.com/us/footprint

Patagonia's Resource Use:

www.patagonia.com/resourceuse

Patagonia's Supplier Code of Conduct:

www.patagonia.com/suppliercoc