



SUSTAINABILITY REPORT
2017

2017 SUSTAINABILITY REPORT HIGHLIGHTS



B CORP AWARDS



“Best for the World”
Honoree and
“Built to Last” Award

95%

TRASH BIN ACCURACY
in production



76.8%

DIVERTED WASTE MATERIALS
from landfill (90% goal)

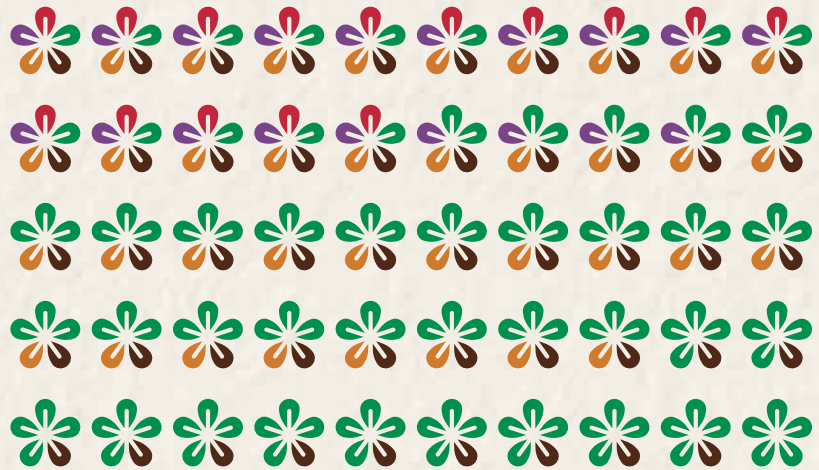
‘16/‘17

IMPROVED WORKER SAFETY RATIOS
second year in a row



100%

TM employees make a
LIVING WAGE



OVER 2,000,000 LBS OF ORGANIC HERBS

30%

of our herb purchases were primarily wild-collected from forests and fields

37.5%

of our herb purchases were Fair or Ethical trade herbs

75%

of our herbs were primarily sourced from their geo-authentic growing region

99.6%

of our herb purchases were certified organic

100%



RENEWABLE POWER
at Sebastopol factory

23%



FAIR TRADE POUNDS
increase over FY2016

\$1.24M



IN SOCIAL BUSINESS INVESTMENT:
Fair Trade Premiums and Global Supply Chain Community Investment

55%



TEABAG PRODUCTION
without staples

A LETTER FROM OUR CEO, BLAIR KELLISON

Fiscal year 2017 marks Traditional Medicinals' 43rd year in business. It was an outstanding year for the company, and I couldn't be prouder of our team and the results we accomplished, including record investments in sustainability. It's a core principle at TM that growth leads to an expansion of our purpose-driven, social business model. So as our company grows, so too does our positive impact, allowing more people to earn fair wages and have a greater quality of life, while converting more of the planet to responsible, organic farming practices.

As a private organization, we have the luxury of having a very long-term planning horizon. As a result, we are able to replace a typical company's focus on quarterly earnings with a focus instead on expanding our sustainability efforts to stay out in front of our ever-growing organization.

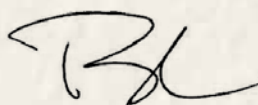
In 2017, we focused on expanding our sustainable sourcing of herbs. We purchased over 2 million pounds of herbs from six continents, 99.6% of it certified organic, and over 500,000 pounds of Fair Trade- or FairWild-certified herbs. Ethical trade initiatives in India and China added another 200,000 pounds for a total of over 750,000 pounds of fair- and ethically traded herbs. Fair Trade premium contributions to producer community development funds totaled over \$110,000 in FY2017.

In 2017, TM's solar panels and a local geothermal plant supplied 100% local, renewable electricity for our factory production. Our new administrative offices in Rohnert Park have 3.5 Megawatts of solar panels, which offset 42% of our power purchases. TM again offset all metered gas usage with carbon offsets from our organic, Fair Trade green tea supplier's regenerative farming practices.

Traditional Medicinals continued to invest in operational efficiency through new hires and continuous improvement training that launched projects to reduce downtime, landfill output, and safety issues. TM's growing production capacity supported 14.3% sales growth, with an only a 2% increase in packaging procurement.

TM provided 100% of employees a verifiable Living Wage for the second year in a row, and further increased its lowest (and other) hourly wages in anticipation of California's 2019 \$15/hour minimum wage requirement. Worker safety metrics also increased for the second year in a row.

Thank you for your interest in our annual Sustainability Report. We hope our success inspires others to incorporate more sustainable practices into their business which benefit our stakeholders in the global community. We look forward to finding ways to improve so that we may continue this good work for at least another 43 years.



— Blair Kellison *CEO*



REPORTING THE GOOD WORK WE DO

We are not just in the business of tea. We are in the business of changing lives, changing communities, and changing the quality of herbal remedies. Since our inception in 1974, we have infused sustainability into every aspect of our operations, from sourcing and packaging to distribution and voluntary certifications. Our community engagement philosophy requires hard work and accountability. By partnering with our stakeholders, we can help preserve and steward the environment, look out for our people, and protect the future of our planet.

In 2017, we moved our administrative team to new offices in Rohnert Park, CA, allowing us to expand our operations in our Sebastopol, CA factory to keep up increased production from the rising demand for our herbal products. When we first moved into our factory in 1987, we were only producing a couple hundred cases per day. Thirty years later, with operations in this same location, we are now able to produce 20,000 cases per day. As the largest Fair Trade herbal tea company in North America, we've had to learn how to grow steadily and sustainably. Today, our factory runs on 100% renewable clean energy, and we continue to work towards our Zero Waste goal.

Communicating Our Sustainable Mission and Practices

Being accountable for the good work we do requires a strong communications platform and reporting system. Consistent with our purpose to connect people to the power of plants, Traditional Medicinals prioritizes the three pillars of sustainability: **environmental stewardship, social equity, and economic development.** Recognizing the importance of transparency in measuring impact, we embrace accountability through all parts of our process, from the fields where our herbs grow to our manufacturing facility and offices in Sonoma County, CA.

To meet our high standards in our herbal wellness products and working relationships, we partner with several third-party agencies and certification bodies, which keep us accountable and help us reach new heights in quality and social business standards.

Embodying the Three Pillars of Sustainability



A woman harvesting senna from one of the Revive! Project® communities in India's Thar Desert.

Our Key Sustainability Stakeholders

Certified



Corporation



This report highlights our most interesting achievements and lessons from FY 2017. For a more in-depth look at our commitment to sustainability, we invite you to download the [2017 Traditional Medicinals Benefit Appendix](#) on our website.

Building Our Impact Business Model

In addition to voluntarily adopting the strict standards of USDA Organic, Non-GMO Project Verified, Fair Trade, FairWild, and pharmacopoeial-grade herbs, Traditional Medicinals is also proud to be a B Corp, a certification of corporate impact that encompasses all three pillars of sustainability. In addition to B Corp’s Annual B Impact Assessment, we are a registered California Benefit Corporation, a legal status which allows us to build beyond the profits of our *shareholders* to invest in our *stakeholders*, from our herb sourcing communities and suppliers to our employees and consumers.

Our self-reported FY2016 score was 125.5 out of 200 (80 is required for B Corp certification), and our FY2017 score of 127.8 is self-reported, pending our official recertification review.

Recognition

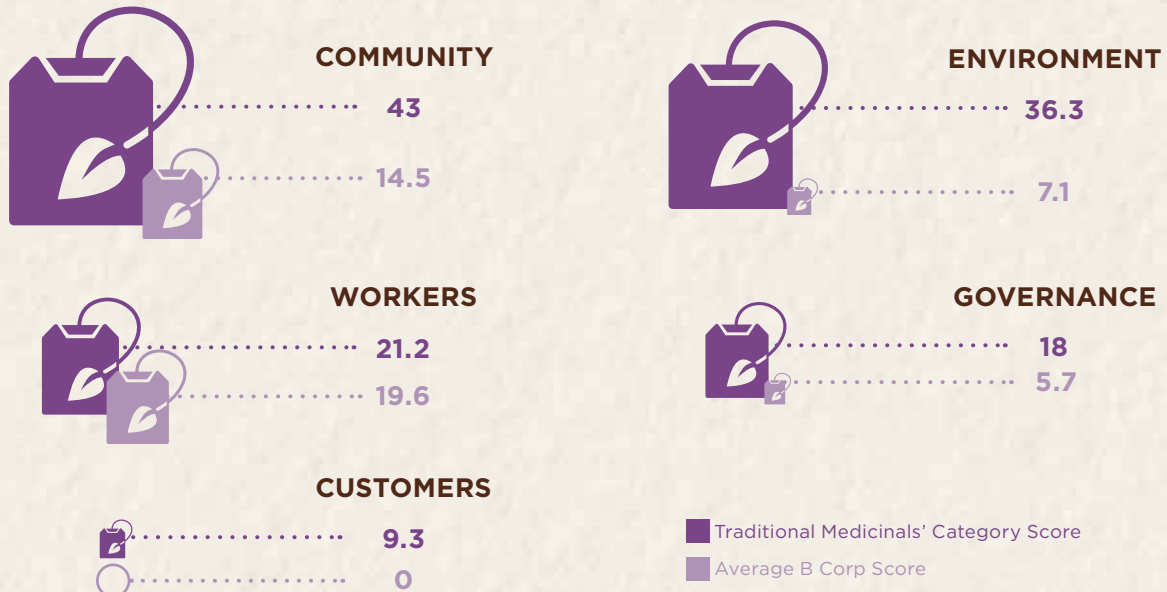
In 2017, B Lab recognized Traditional Medicinals as a **“Best for the World” Honoree** in their “Changemaker” category, acknowledging companies that showed the most verified improvements on the B Impact Assessment over time. Additionally in 2017, TM won a **“Built to Last” Award**, recognizing our new financial partnership with fellow B Corp member, The Builders Fund, a mission-driven social impact fund, which secures TM’s ability to grow its beneficial business model for decades to come.

We’re incredibly proud to be a certified B Corp and grateful for the communal challenge to prioritize and communicate the impact of our purpose: to reinvent the industry of herbal medicine from the ground up.

THE RECENT EVOLUTION OF OUR B IMPACT ASSESSMENT



FY 2017 B IMPACT OVERALL RATING



OUR SUSTAINABLE SUPPLY CHAIN

To achieve our high standards in quality and sustainability, our sourcing team considers many aspects of a given source, from the plants and collecting methods to the needs of its people and the surrounding ecosystems. Being as particular as we are about these details, we can't simply rely on the open market to meet our growing demand. Rather, we have to act strategically, working hand-in-hand with our partners to plan cultivation and collection years in advance. This hard work fosters strong long-term partnerships with suppliers and herb communities and creates an opportunity for everyone to grow and thrive.

Washington's Trout Lake Farm has worked with us since the 1970s, making them our longest-standing organic producer and an instrumental partner in implementing pharmacopoeial standards for our teas. Known for their stunning fields of echinacea, the farm also supplies us with essential herbs like peppermint, marshmallow, catnip, and alfalfa. In 2017, we added two new herbs to our Trout Lake sourcing list—burdock and skullcap—allowing us to source more herbs domestically (particularly geo-authentic herbs like echinacea and skullcap) and grow our business with longtime partners who embrace our commitment to quality.

Sourcing Our Herbs

Traditional Medicinals sources over **100 botanical ingredients from 35 countries and six continents** around the world. Our supply partners range from the remote, FairWild-certified licorice plains of southern Kazakhstan to idyllic, Trout Lake, Washington, where some of the world's best echinacea and peppermint grow. It's one thing to find an herb source; it's quite another to have it meet our quality standards.

HOW WE MEASURE QUALITY

- **Pharmacopoeial-grade active herb:** a marker of quality used only for medicinal plants
- **Geo-authenticity:** 77% of our herbs are sourced from their native regions
- **Certified organic farming:** non-GMO plants grown without the use of synthetic chemicals
- **Ethical Trade:** 53% of our products are Fair Trade, FairWild, or support ethical trade in the herb community

- **Non-GMO Project Verified** herbal teas and packaging
- **Renewable packaging:** Recycled and FSC-certified cardboard and compostable teabags support renewable material

Organic Herbs Purchased

We purchased **over two million pounds of herbs** in 2017 (+15.4% from FY2016), of which 99.6% were certified organic, up slightly from 98.9% in the prior year.

Since 2000, it's been our goal to get 100% of our ingredients certified organic, however some herbs have such specific quality requirements and/or low purchase volumes that make implementing organic certification difficult for supply chain partners. Nevertheless, we continue to work towards this goal.

CERTIFIED ORGANIC BOTANICALS PURCHASED IN POUNDS



THE TOP COUNTRIES WE SOURCED FROM IN 2017



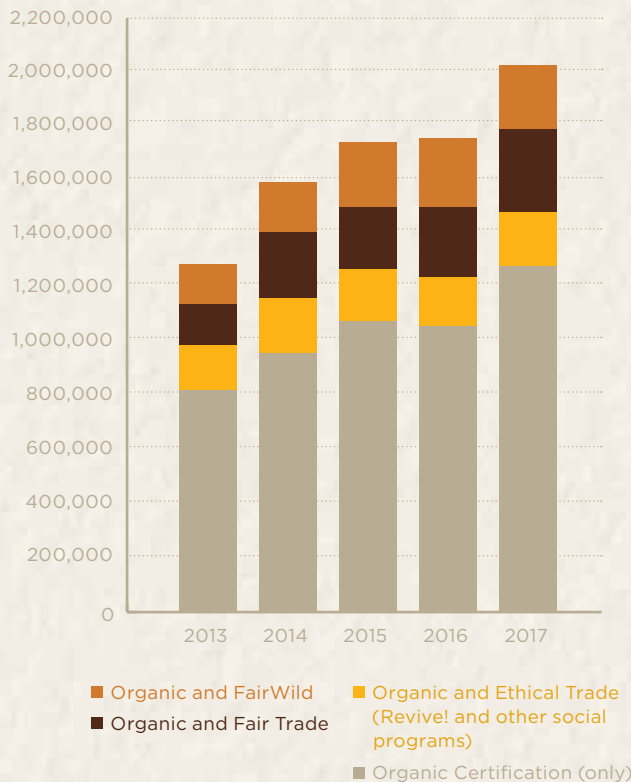
1. USA (*third year in a row*)
2. India
3. Egypt
4. Bulgaria
5. Kazakhstan
6. Sri Lanka
7. Poland
8. Hungary
9. Georgia
10. Burkina Faso & Germany (tie)

53% of TM's Products are Fair Trade, FairWild, or Feature Ethically Traded Herbs

Fair Trade- and FairWild-certified products play an important role in fulfilling our company mission to positively impact the lives of our collectors and farmers. In addition, our social business programs with Traditional Medicinals Foundation and other key supply partners contribute to our ethical sourcing practices. By considering the well-being of collectors and farmers, we have an opportunity to ensure positive working conditions and help remove the obstacles to their empowerment. By voluntarily paying fair wages and premiums, or in some cases, by working with our foundation to address social issues within the communities, we can also help set new standards in our industry.

SUSTAINABLE HERB PROCUREMENT

ORGANIC, FAIR, AND ETHICAL TRADE POUNDS



SUSTAINABLE HERB OF THE YEAR:

GINGER

In 2017, we sourced more ginger than ever before — primarily from Sri Lanka, India, and Burkina Faso — which we use for many of our teas. It is now our largest Fair Trade-certified herb, showing a 71% increase in pounds from 2016. This same ginger also accounts for the 23% increase in overall Fair Trade pounds sourced for 2017.



THE SUSTAINABILITY OF OUR OPERATIONS

To truly fulfill our role as a socially responsible business, we need to balance our engagement in sourcing communities with positive impact at an operational level, as well. At both our factory and our administrative offices in Sonoma County, California, our Operations team thoughtfully considers and manages all aspects of our impact, from the energy that powers our facilities and the fuel that delivers our materials to the packaging that holds them together, working diligently to minimize our footprint.

In 2017, we bought 627 tons of certified carbon credits from Ambootia Estates, our organic, Fair Trade-certified green tea supplier in India. Ambootia's perennial tea plant cultivation captures more carbon than the emissions created from the tea's harvest, processing and shipping, to help build regenerative systems from our farms to your family. In 2017, we bought credits to offset our projected electrical use, gas, and plastic production for our single-serve cups. We also expanded our insetting to include company travel for the first time, an important measure of accountability for our footprint as our business grows.

Sustainable Operations at Traditional Medicinals

Traditional Medicinals works with partners and organizations to establish operational sustainability. In 2017, we renewed our certification as a **California Green Business** and remained an **EPA 100% Green Power Partner**, as well as a **Green America Gold Certified Business**.



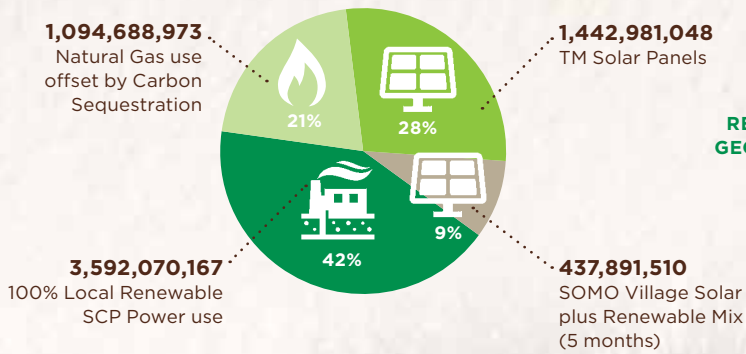
Measuring Our Operational Impact in 2017

1. ENERGY USE

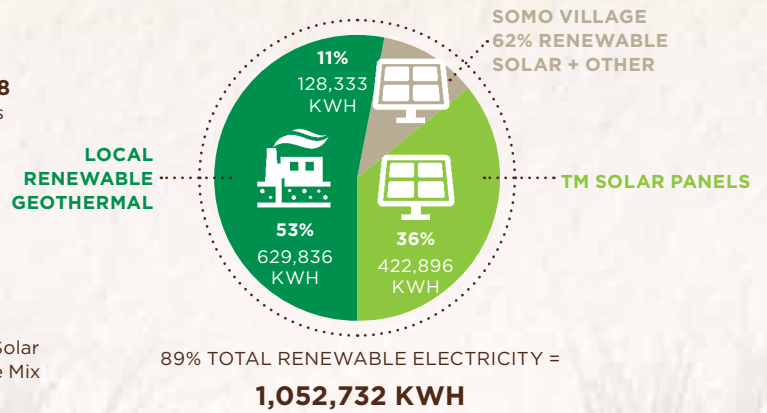
Since 2016, our factory in Sebastopol, CA has operated on 100% local, renewable electric power, sourced from our 1,450 rooftop solar panels and a nearby geo-thermal plant. Keeping our production in Sebastopol, we consolidated our other office spaces into our new headquarters in SOMO Village, a live-work community in Rohnert, CA that espouses One Planet Living's principles on sustainable living. Thanks to SOMO Village's solar array, our new facility now provides 3,940,000 kWh per year—that's three times more than our factory's entire electricity usage in 2017!

PERCENTAGES OF ENERGY USED

ANNUALLY, IN BTUS



2017 ANNUAL ELECTRICITY USE



(the amount required to power 78 average US homes for one year or 700 acres of U.S. forest carbon sequestration)



TM's Sustainability Manager Ben Couch and Journeyman Steve Lundborg—key players in helping us re-certify as a California Green Business.

2. OFFSETTING OUR CARBON FOOTPRINT

In 2017, we bought 627 tons of certified carbon credits from Ambootia Estates, our organic, Fair Trade-certified green tea supplier in India, whose farming practices make them an excellent sustainability partner. Ambootia's green tea leaf cultivation captures more carbon than the tea production's carbon emissions, which helps us offset the carbon footprint created by processing and shipping, to build regenerative systems from our farms to your family.

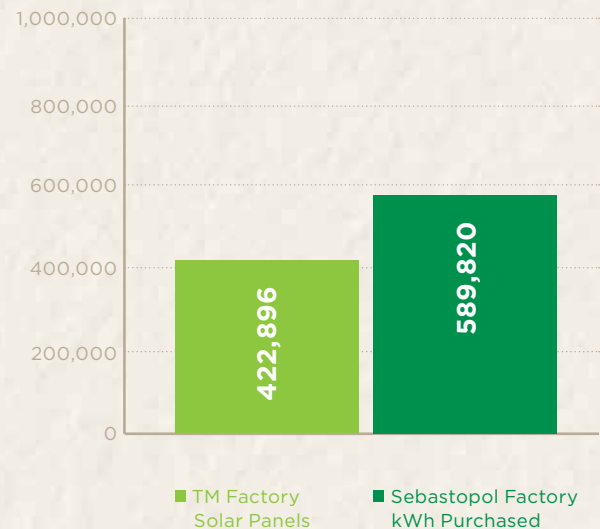
As we further evaluate our supply chain carbon footprint, we'll continue to offset our corporate natural gas use by buying certified carbon credits, which are verified against carbon sequestration activities like reforestation, composting projects, or those at Ambootia. Because plants take carbon out of the atmosphere as they grow above ground and below, regenerative practices like biodiversity and composting build better, more carbon-rich soil that also holds more water for stronger ecosystems.

3. ZERO WASTE ACTIVITIES

Starting in 2016, TM set a goal to achieve Zero Waste Certification. Minimum certification requires at least 90% diversion of waste materials from landfill and a commitment to progress in a variety of categories. In 2017, our Operations team participated in continuous improvement training and implemented a waste management and reduction project to improve the accuracy of our landfill diversion program in our factory.

As a result, we were able to improve our accuracy, jumping from 16% to 95% waste bin accuracy in 2017, which led to an 86% decrease in daily trash bin pounds! By also adding a compost bin in our production area, we were able to capture an average of 28 pounds of herb, paper, and teabag string compost per day. While we made progress in some diversion areas, production growth and our move to new offices added scrap and other waste to increase our landfill output. In 2018, we will be working towards improving our monitoring systems to make a bigger impact in our Zero Waste goal.

2017 SEBASTOPOL FACTORY ELECTRICITY USAGE



ANNUAL WASTE STREAMS

(TOTAL TONS OR %)

	2016	2017	% Change	What we're doing to reduce our waste output.
Recycling/Reuse	205	237	48%	When upgrading our factory, we increased production with faster tea machines and recyclable packaging, but unfortunately produced more scrap to landfill.
Landfill	66	93	42%	
Compost	56	72	28%	Comes from herb, garden, and kitchen waste at our Sonoma County HQ.
Hazardous Waste	0.14	0.40	182%	We use small amounts of various chemicals in quality testing of our ingredients.
Total Annual Waste	327	402	43%	Our Zero Waste Certification requires 90% diversion of waste from landfill. We're committed to reporting our progress every year.
% of waste diverted from landfill	79.9%	76.8%	-3.9%*	

OUR COMMUNITY

To fulfill our purpose of connecting people to the power of plants, we must focus on the well-being of people as much as plants. Our community engagement philosophy takes its roots from our early days, when Traditional Medicinals' Co-founder Drake Sadler built the business on ethical practices and equitable relationships – or “right livelihood.” That same social business model has endured at TM for 43 years and counting. Today, our purpose continues to engage us with and support our stakeholders, from the sourcing communities and suppliers to our employees and non-profit partners. It's not only a smart business practice, it's the right thing to do.

The Revive! Project® is our first social business project to turn into a full-fledged social development program. Since 2009, the project's initiatives have benefitted six communities, affecting some 12,000 villagers in India's Thar Desert. With our partners, we have expanded six large community ponds, dug and rebuilt hundreds of rainwater catchments for needy families, built five elementary schools, and provided 367 bicycles to help children get to school and continue their education. In 2017, we sent a group of TM employees to build a playground for one of the five Revive schools.

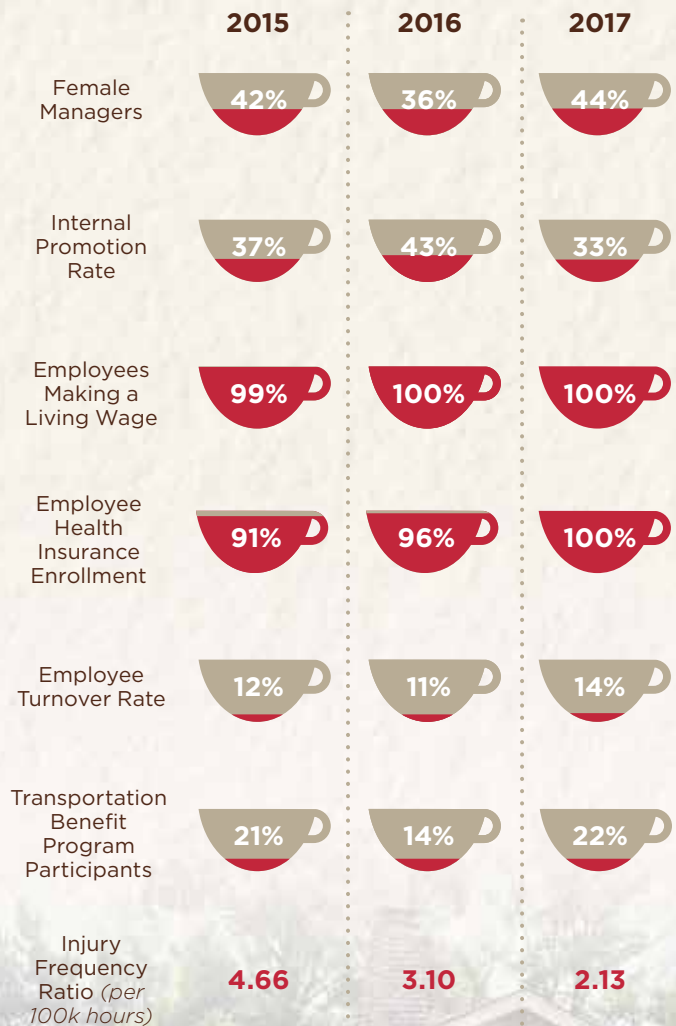


Our Team

As we've grown from a small family business to a trust-owned B Corporation with over 150 employees in Sonoma County and across the USA and Canada, we've learned that a skilled, passionate, and committed team is our greatest asset. Our [2017 Traditional Medicinals Benefit Appendix](#) discusses our worker performance metrics in more detail, but we are pleased to share a few notable highlights:

- We paid 100% of our full-time team members a living wage (per MIT's Living Wage Calculator), an important metric for a manufacturing company in our home of Sonoma County, California.
- We paid out nearly \$10,000 in transportation subsidies, rewarding team members who use carpools, public transit, or bike or walk to work with \$5 for per day. Employee participation has increased to the second-highest rate since we started, although the payout amount has decreased. We will be further evaluating the program for FY18.
- To meet growing demand in tea season, we occasionally employ temporary workers. However in 2017, we added more full-time positions instead, recognizing that long-term relationships build value for our community.
- Emphasizing efficiency and safety in our factory, we've reduced our injury frequency ratio for the second year in a row, thereby improving the overall safety of our team members.

FY 2017 EMPLOYEE METRICS



Members of our team working on TM's Annual Volunteer Day at Daily Acts, an organization that facilitates community sustainability projects.

Community Engagement

As mentioned in "Our Sustainable Supply Chain," fair trade organizations like Fair Trade International (FLO), Fair Trade USA, and FairWild play a key role in our sustainability strategy. By voluntarily subscribing to these rigorous standards and organic certification, we are not only able to protect the environment, but also workers' rights. Through these certification bodies, we also pay premiums directly back to the workers, who then manage these funds through democratic decision-making processes, allowing us to address all three pillars of sustainability. **In 2017, we paid an estimated \$113,421 in fair premium payments to our sourcing communities.**

Social Contributions

As a purpose-driven business, we rely on the good work of nonprofit and charitable organizations to inform and engage like-minded communities both at home and around the world. **In 2017, our financial contributions to 501(c)(3) organizations grew about 24% to \$329,100, and totaled \$380,580** including memberships in such organizations as the American Botanical Council.

This contribution is part of our larger **social business investment budget of \$1.24mm**, which includes strategic efforts like:

- estimated price markups and premiums for Fair Trade- and FairWild-certified ingredients
- funding for Traditional Medicinals' Revive! Project[®] in India, supporting water and food security as well as social initiatives to remove barriers to empowerment for our senna communities in Rajasthan, India
- the purchase of carbon offsets to account for our natural gas use and use of plastic in our single-serving cup products
- inspection, certification, and licensing fees of third-party organizations like B Lab and Fair Trade
- other supply chain community engagement project and travel

FAIR PREMIUM CONTRIBUTIONS

CALENDAR 2017



\$84,183

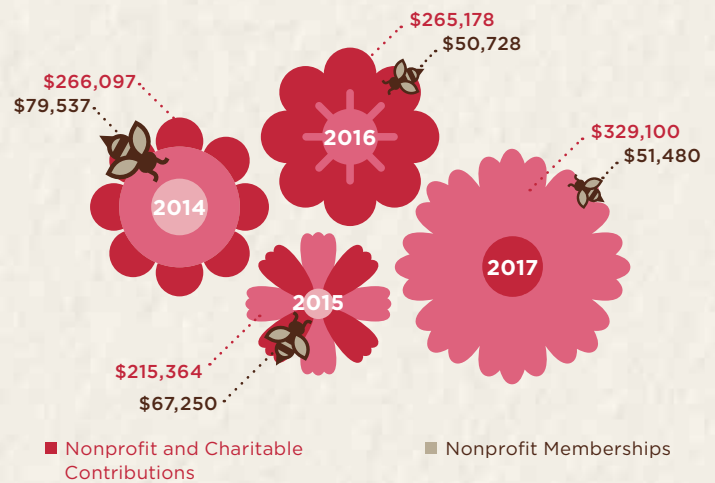
Fair Trade Contributions



\$29,248

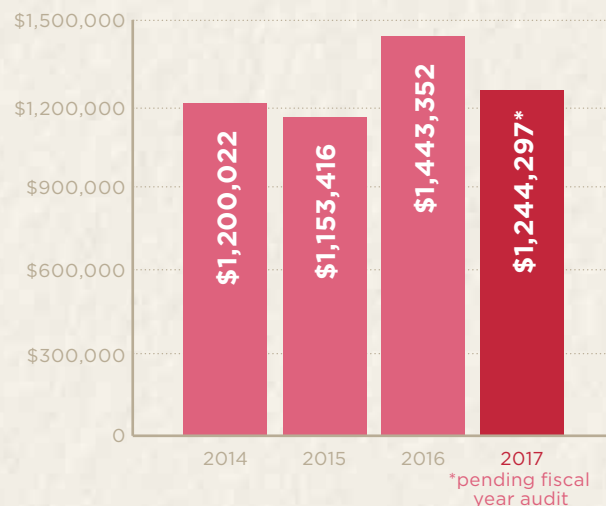
FairWild Contributions

NONPROFIT CONTRIBUTIONS AND MEMBERSHIPS



SOCIAL BUSINESS INVESTMENT

ETHICAL TRADE COST PROJECTIONS, CARBON OFFSETS, INSPECTION & LICENSING, SUSTAINABILITY & STRATEGIC SOURCING BUDGETS



NEVER UNDERESTIMATE WHAT A SMALL GROUP OF MISSION-DRIVEN PEOPLE CAN DO!



Mahatma Gandhi described his philosophy on business and the relationship between commerce and morality as follows: “The value of a business should be gauged less by the profits it pays to its shareholders and more by its impact on the bodies, souls and spirits of the people employed through it.” In this quote, Gandhi encouraged business leaders to embrace a moral sense of stewardship in which all stakeholders benefit fairly.

Gandhi’s philosophy had a profound impact on Traditional Medicinals’ founding purpose, as well as the development of the company’s mission, vision, beliefs, values, culture, and corporate responsibility. And fundamental to that responsibility is a moral obligation to fair and equitable trading with our often impoverished supply communities.

An outcome of that commitment is that four decades later, Traditional Medicinals is today the largest fair-traded tea company in North America. We have thirty products with fair labeling, we purchase hundreds of tons of fair certified herbs, and all of our tea bag paper is certified by the Rainforest Alliance organization.

Through our packaging, brand publishing, social media, and advertising, we are also educating our loyal consumers about fair and equitable business practices. We are encouraging social sustainability to millions of households, and they are resonating through their commitment to responsible consumer purchasing and consumption. And just like each drop of hot water contributes to every cup of tea, each consumer is contributing to the continued success of Traditional Medicinals.

Gandhi also said “Never under estimate what a small group of mission driven people can do!” And in keeping with his inspiration, we want to acknowledge our shared work of sustainability (in all its forms) done by so many. It is your effort now that will inspire and benefit generations to come. Thank you!

— **Drake Sadler** *Co-founder, Traditional Medicinals*



Traditional Medicinals

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Visit www.traditionalmedicinals.com to learn more.



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