

SUSTAINABILITY REPORT

2016

A LETTER FROM OUR CEO, BLAIR KELLISON

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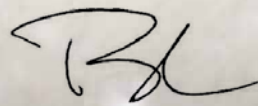
Fiscal year 2016 marks Traditional Medicinals' 42nd year in business. It was an outstanding year for the company, and I couldn't be prouder of our team and the results we accomplished, including record sales, record profits, and record investments in sustainability. It's a core principle at TM that growth in sales and profits leads to growth in the positive impact we have on our stakeholders, and 2016 was a strong testament to that principle.

One area of intense activity in 2016 was in Operations, where we invested in equipment to make us more efficient and in people to improve our sourcing, forecasting, manufacturing and distribution processes. The results speak for themselves. While we sold 12.7% more product in 2016, we purchased only 0.4% more herbs, and we actually purchased 6% less packaging by weight. Leaner operations enable us to be more competitive and efficient, which in turn allows us to expand our social and environmental investments at a faster rate than our sales growth. Here are a few highlights from the year that we are especially proud of:

- We became the original tea company to earn Non-GMO Project Verification for our tea bags and strings, thanks to our collaborations with supply chain and certification partners.
- We converted more tea bag manufacturing to replace staples with knots, eliminating over 200 million staples from production annually.
- Almost 99% of our herbs purchased in 2016 were certified organic, with almost 500,000 pounds that were either Fair Trade or FairWild-certified.
- This was our first full year to run on 100% local renewable power, and we were honored to win a Green Power Leadership Award from the Environmental Protection Agency.

Sustainability is at the core of our mission, 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.

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 42 years.



— Blair Kellison, CEO



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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.

As a member of the banana family (Musaceae), the abacá tree sends up multiple stalks from a central root to produce thick, fibrous leaves. When abacá's dramatic flower begins blooming, it signals to farmers that a stalk is ready for harvest. Abacá thrives on the Filipino island of Catanduanes, where it grows in humid mountain regions. We are especially fond of the sustainable fiber it yields to produce our tea bags, which in 2016 made us the tea industry's original company to use compostable Non-GMO Project Verified bags and strings.

Introducing TM's Sustainability Report

Being accountable for the good work we do necessitates a rigorous, annual reporting system, which we base on our fiscal year (FY), from October 1st through September 30th. In recognition of the positive impact of independent, third-party auditors and certification bodies for organic, fair, and sustainable practices, we embrace transparency through all parts of our process, from the fields where our herbs grow to our manufacturing facility in Sebastopol, CA.

This report highlights our most interesting achievements and lessons from FY 2016. For a more in-depth look at our commitment to sustainability, we invite you to download the *2016 Traditional Medicinals Sustainability Benefit Report Appendix* on our [website](#).

Embodying the Three Pillars of Sustainability

Most discussion of sustainability tends to center on the environment. However, true corporate sustainability must take three pillars into account: environmental stewardship, social equity, and economic development.

To embody these pillars, we registered as a **California Benefit Corporation** in 2010, 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.

To meet the high standards we have for our herbal wellness products and in our working relationships, we partner with several third-party agencies and certification bodies, who keep us accountable and help us reach new heights in quality and social business standards. Below are a few of our key stakeholders:



Our B Impact Assessment

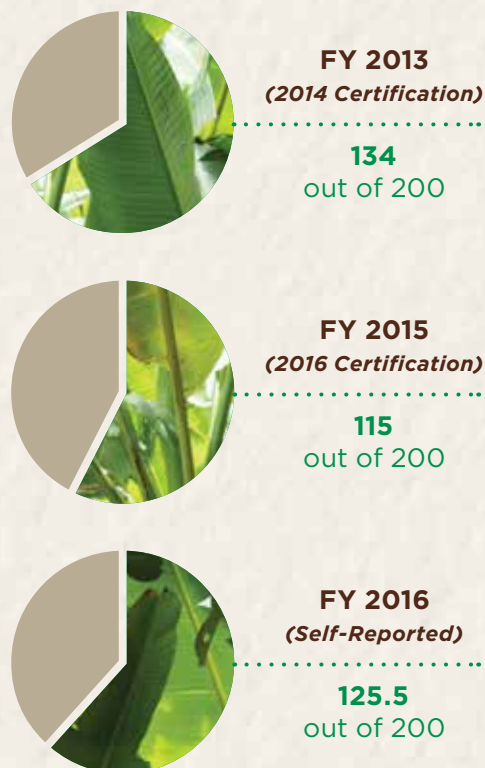
TM has been a Certified B Corp since 2010, which means we assess ourselves against “rigorous standards of social and environmental performance, accountability, and transparency.” B Lab has certified TM every even year with the B Impact Assessment, using data from the previous year. **In 2014 for FY 2013**, we scored 134 out of 200, for which we were honored to receive a “Best for the World” award, given to the top 10% B Corps in each category.

In 2015, we opted to take the annual B Impact Assessment to report our performance as a California Benefit Corporation. FY 2016 represents our first self-reported score in alternating years.

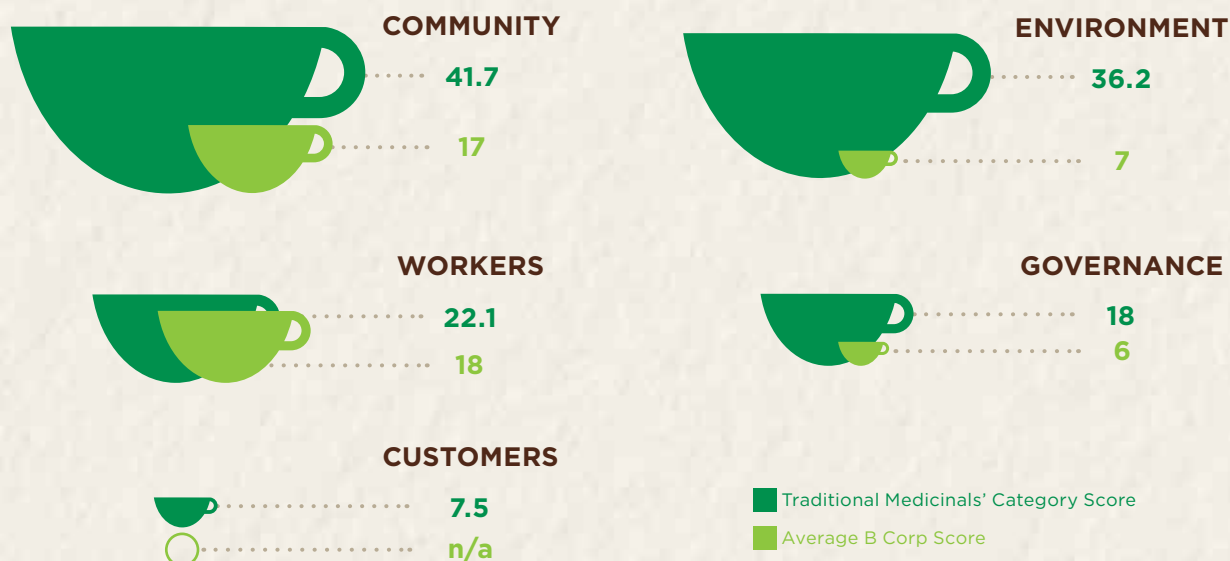
Due to adjustments in B Impact supply chain questions and the transition of the company from an employee-shared ownership model to a profit-sharing model, our score in 2015 fell by 19 points. **When we received our score in 2017 for 2016, our assessment rose to 125.5**, which we attribute to our growth in organic sourcing and improved reporting on practices we’ve long had in place. Below is a more detailed look at the factors that made up that score.

We’re incredibly proud to be a certified B Corp, and we are grateful for the challenges it offers in helping us prioritize and communicate the benefits of fulfilling our company mission: to transform the industry of herbal medicine from the ground up.

THE RECENT EVOLUTION OF OUR B IMPACT ASSESSMENT



FY 2016 B IMPACT OVERALL RATING



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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.

To harvest abacá, farmers cut the mature stalk and strip it of its leafy layers without harming the rest of the plant; in fact, the tree can generate a consistent, large volume of fiber for up to 20 years. Abacá's formidable strength and resistance to saltwater made this the fiber of choice in the 19th century for ship riggings; today, that same inherent strength and ability to quickly regenerate makes it a highly desirable, sustainable, and compostable material for our tea bags, while creating industry for Filipino abacá farmers for generations to come.



Sourcing Our Herbs

Traditional Medicinals sources over 100 botanical ingredients from 38 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 peppermint grows. 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 truly medicinal plants
- **Geo-authenticity:** 77% of our herbs are sourced from their native regions
- **Certified organic:** non-GMO plants grown in ecological balance without synthetic chemical use
- **Ethical Trade:** Fair Trade, FairWild, or building ethical trade in the herb community
- **Non-GMO Project Verified** herbal teas and packaging
- **Sustainable and responsible packaging**

Organic Herbs Purchased

We purchased almost 1.75 million pounds of herbs in 2016 (+0.4% from FY2015), of which 98.9% were certified organic, down slightly from 99.1% in the prior year.

If we are so committed to organic, why are we still buying 1.1% conventional ingredients?

While there is no simple answer, our non-certified ingredients are ones where quality requirements and relatively low usage make organizing organic certification difficult for producers. This said, we are still working toward our goal of reaching 100% organic ingredients.

There are also several herbs that we are still trying to source certified organic. The most notable in 2016 was Pau d'Arco, where TM quality was not available with organic certification. By ordering a much higher volume than our yearly demand, we created better processing efficiency, which helps explain our slight decrease in percentage of organic herbs purchased.

CERTIFIED ORGANIC BOTANICALS PURCHASED IN POUNDS



THE TOP FIVE COUNTRIES WE SOURCED FROM IN 2016



Peppermint (Mentha x piperita), our most purchased herb in 2016

Almost Half of TM's Products are Fair Trade, FairWild, or Ethically Sourced

Fair Trade- and FairWild-certified products play an important role in fulfilling our company mission. In addition, our social business programs with Traditional Medicinals Foundation, WomenServe, 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 prices and premiums, or in some cases by working with our foundation to address social issues within the communities, we are setting new standards in our industry.

In 2016, 38.9% of our herbs were certified Fair Trade, FairWild, or were ethically traded, +4.5% from 2015, representing 30 of our 61 products. Thanks to growth in fair-certified herbs like licorice, chamomile, and ginger, we increased the total volume of fair-certified herbs by 8%, to nearly 500,000 pounds.

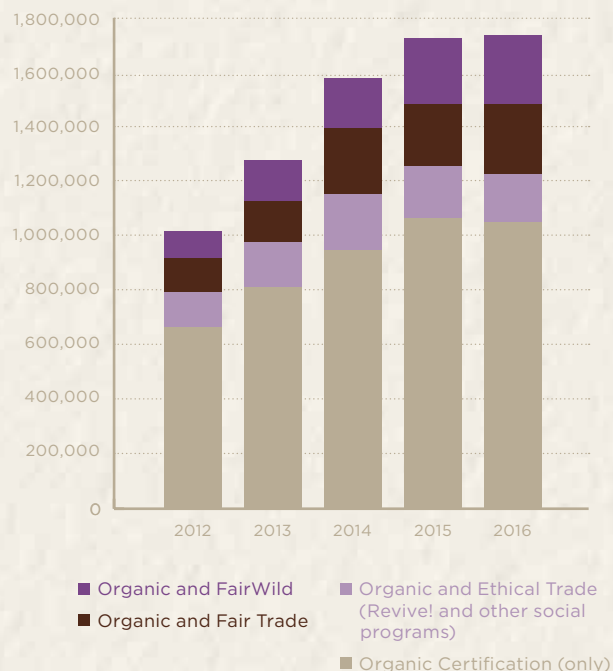
Sustainable Packaging Certifications

In 2014, we achieved Non-GMO Project Verification for both our herbs and tea bags. While most of our herbs have long been certified organic, and are therefore verifiably Non-GMO, our tea bags and strings were not — an important distinction that prompted us to earn the verification for our herbal products as a whole, rather than the herbs alone. To take it to the next level, we sought Rainforest Alliance certification for our abacá and Forest Stewardship Council (FSC) certification for our woodpulp — both used to make our tea bags — which allowed us to earn official verification in 2016. In pioneering the use of these materials for our tea bags, we became the tea industry's original company to use compostable, Non-GMO Project Verified tea bags and strings.

In addition, we've been working with our partners Glatfelter (the supplier of these tea bags) and Traditional Medicinals Foundation, to conduct an initial community development assessment to support family abacá growers in the Philippines.

SUSTAINABLE HERB PROCUREMENT AND SALES GROWTH

ORGANIC, FAIR, AND ETHICAL TRADE POUNDS



WHAT'S IN YOUR CUP OF TM TEA?

A STRING made from Non-GMO Project Verified cotton.

A TEA BAG that's compostable, Non-GMO Project Verified, Rainforest Alliance-certified, and made from both sustainably harvested abacá leaf fiber and wood pulp into a double-chamber design that ensures better herbal extraction (so **no** chemical sealants!).



A TAG made from FSC-certified paper.

A TEA composed of organic, Non-GMO Project Verified, responsibly-sourced herbs with pharmacopoeial-grade active ingredients.

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THE SUSTAINABILITY OF OUR OPERATIONS

To truly fulfill our role as a socially responsible business, we balance our engagement in sourcing communities with a positive impact at a manufacturing level, as well. At our factory in Sonoma County, California, our Operations team considers and manages all aspects of our impact, from the energy that powers our factory and the fuel that delivers our materials to the packaging that holds them together, working diligently to minimize our footprint. After several years of advancing steadily towards our goal, FY 2016 marked the first full year operating our manufacturing facility with 100% renewable electricity.

Our Operations team played a key role in our Non-GMO Project Verified Bags & Strings initiative in 2016. By introducing new, state-of-the-art manufacturing equipment, not only were we able to improve overall efficiency, but we were also able to replace one-third of our bag and tag staples with knots – an important upgrade that saves approximately 200 million staples per year and makes our bags and strings fully compostable. As we continue updating our equipment over the next several years, we intend to replace all of our staples with knots.



Sustainable Operations at Traditional Medicinals

Traditional Medicinals works with partners and organizations to establish operational sustainability. In FY 2016, we renewed our certification as an **EPA Green Power Partner** and remained a **California Green Business Program**-certified member. In addition, we were honored to win an **EPA Green Power Leadership Award**.

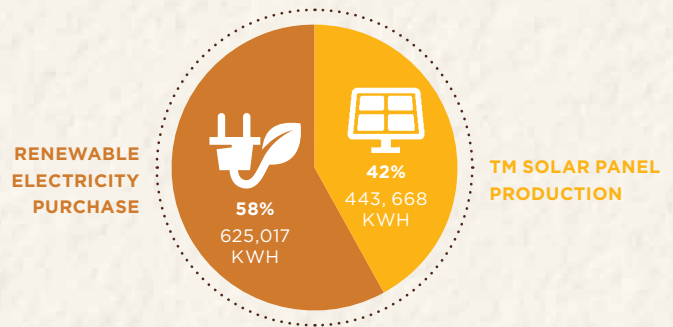


A Few Interesting Statistics from 2016

1. ENERGY USE

In 2016, we reached our goal of converting to 100% renewable local electricity, tapping into our 1,450 solar panels and renewable electricity produced by a local geothermal facility through Sonoma Clean Power. Over 80% of our total energy use comes from renewable energy (up from 64.2% in FY 2015), while the remainder comes from natural gas use offset by carbon sequestration.

2016 ANNUAL ELECTRICITY USE



100% TOTAL RENEWABLE ELECTRICITY =

1,068,684 KWH

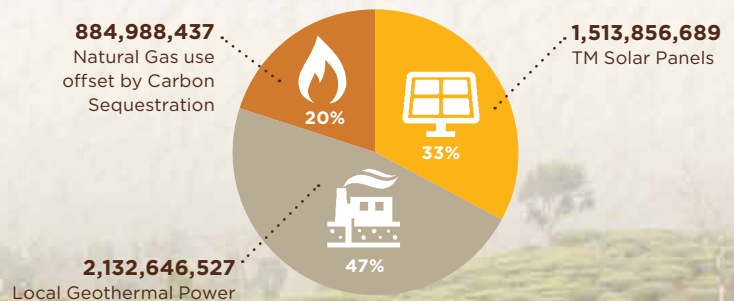


1,068,684 KWH IS EQUAL TO...
the greenhouse gas equivalent of 159 passenger vehicles in one year or 711 acres of U.S. forest carbon sequestration.



PERCENTAGES OF ENERGY USED

ANNUALLY, IN BTUS



2. OFFSETTING OUR CARBON FOOTPRINT

In 2016, we bought 8,852 carbon offsets 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.

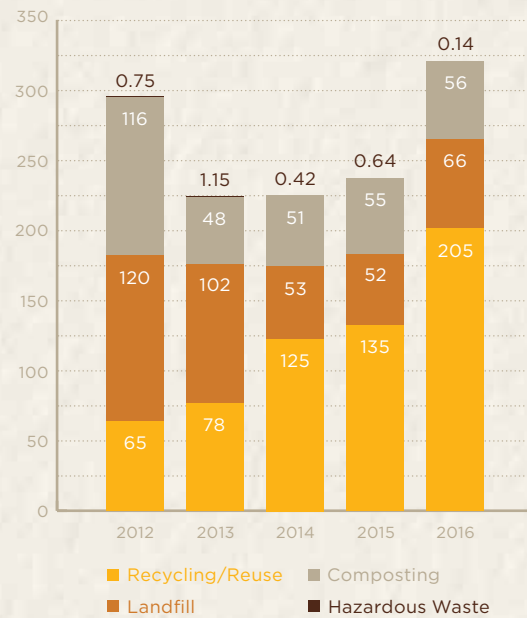
3. 2016 WASTE AUDIT TOWARDS OUR ZERO WASTE GOAL

Starting in 2016, TM set a goal to achieve Zero Waste Certification. The initial level of certification requires at least 90% diversion of waste materials from landfill and a commitment to continuous improvement across a variety of categories. We completed our second consecutive annual waste audit and implemented material management improvements on our goal towards Zero Waste Certification.

Distribution & Sourcing

2016 was our first full year using our third-party logistics distribution model, started in FY 2015. Our cases of tea now leave our warehouses stacked in full truckloads headed to our centralized distribution centers to be bundled with other retail customer orders, rather than traveling less efficiently in multiple trucks to more locations. This resulted in a 92% reduction of weekly outbound truck pickups at our factory headquarters. We also worked with suppliers to optimize shipments and storage for inbound materials and improve efficiency, allowing us to buy just 0.4% more herbs while growing our case sales by 12.7%.

TONS OF WASTE GENERATED BY TYPE



ANNUAL WASTE STREAMS (TOTAL TONS OR %)

	2015	2016	% Change	What we're doing to reduce our waste output.
Recycling/Reuse	135	205	51.9%*	When upgrading our factory, we increased production with faster tea machines and recyclable packaging, but unfortunately produced more scrap to landfill. *Pallet re-use weights were included in 2016 for the first time, improving our measured diversion rate.
Landfill	52	66	26.5%	
Compost	55	56	1.8%	Comes from herb, garden, and kitchen waste at our Sonoma County HQ.
Hazardous Waste	0.64	0.14	-77.9%	We use small amounts of various chemicals in quality testing of our ingredients.
Total Annual Waste	243	327	34.78%	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	78.4%	79.9%	2%*	

4

OUR COMMUNITY

To fulfill our mission 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 42 years and counting. Today, our mission 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.

Harvesting and processing abacá can be labor-intensive in the Filipino jungle, which inspired Glatfelter, our tea bag manufacturing partner, to organize abacá farmers into regional cooperatives to provide village trainings and social benefits for them and their families. These co-ops offer education on first aid, health and emergency preparedness for tropical typhoons. Over the years, their social support has included investments in social trainings, handicraft development, a medical assistance fund, and school supplies. Inspired by Glatfelter's efforts, Traditional Medicinals and Traditional Medicinals Foundation have dedicated funds for social development projects in the abacá communities.



Our Team

As we've grown from a small family business to a family-owned 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 FY 2016 Benefit Report 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. This number is down from previous years, so we will be assessing this program in FY 2017.
- We increased our internal promotion rate from 37% to 43%, showing that while we grow and bring in new expertise, we continue to build our leadership from within.
- While we've had to hire temporary team members on occasion, we've increased the number of full-time members in 2016, recognizing that long-term relationships build value for all.

FY 2016 EMPLOYEE METRICS



Members of our team at the ribbon-cutting ceremony of our “Factory of the Future”

Community Engagement

As mentioned in Chapter 2, 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.

Due to its priority working in developing countries, FLO Fair Trade isn't available in some herb-sourcing countries like the USA, Hungary, and Poland, home to many herb farms. That is why, in 2016, we were excited to participate in the development of Fair Trade USA's new Agricultural Producer Standard which will apply to farms all around the world.

Social Contributions

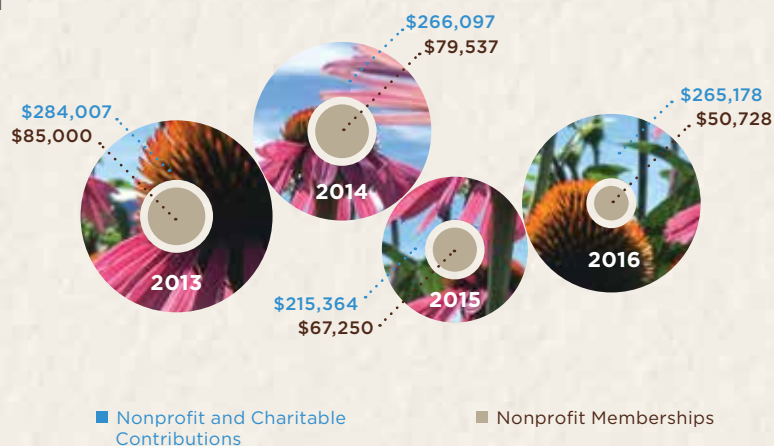
As a purpose-driven business, we rely on the good work of nonprofit and charitable organizations to inform and engage like-minded communities both at home and around the world. **In 2016, our financial contributions to 501(c)(3) organizations grew about 20% to \$265,178 and totaled \$315,905,** including memberships in such organizations as the American Botanical Council.

This contribution is part of our larger **social business investment budget of \$1.44mm**, which includes strategic efforts like:

- estimated price premiums for Fair Trade- and FairWild-certified ingredients
- funding for Traditional Medicinals Foundation's projects in India, supporting social initiatives to remove barriers to empowerment for our communities
- 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
- local community support (food banks, land trusts, social services)

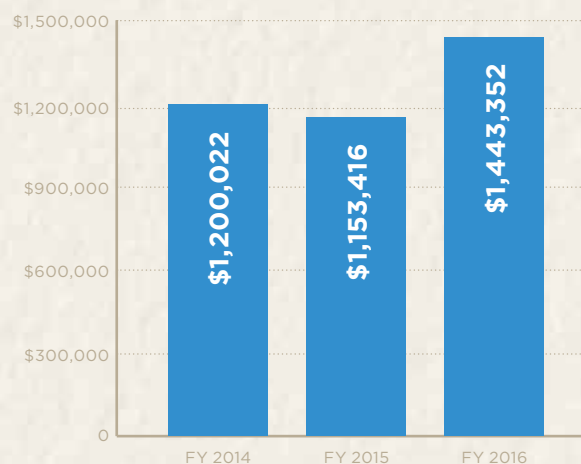


NONPROFIT CONTRIBUTIONS AND MEMBERSHIPS



SOCIAL BUSINESS INVESTMENT

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



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OUR COMMITMENT TO SUSTAINABILITY EDUCATION

Our co-founders and in-house herbalists have indelibly woven herbal education into our company DNA. Our Marketing Department takes the company's purpose, mission and vision to heart, infusing them into our communications, from our *Plant Power Journal* blog and social media outlets to our influencer outreach and packaging. In addition to plants, we also share stories of our sourcing communities, sustainability efforts and social business practices. By the end of FY 2016, our Facebook page reached 1.5 million fans, highlighting the growing interest in plant and sustainability education.

To promote our Non-GMO Bags and Strings campaign, we published two articles on our blog, Plant Power Journal. Both articles enjoyed a large engagement and reach through our social media channels. We also added an informative inside flap to our carton to highlight the many sustainable initiatives that have surfaced from our new tea bags and strings. The subsequent PR, influencer, blog and social media reach from the campaign generated over 600,000 impressions at the beginning of FY 2017 as a result of efforts in 2016.



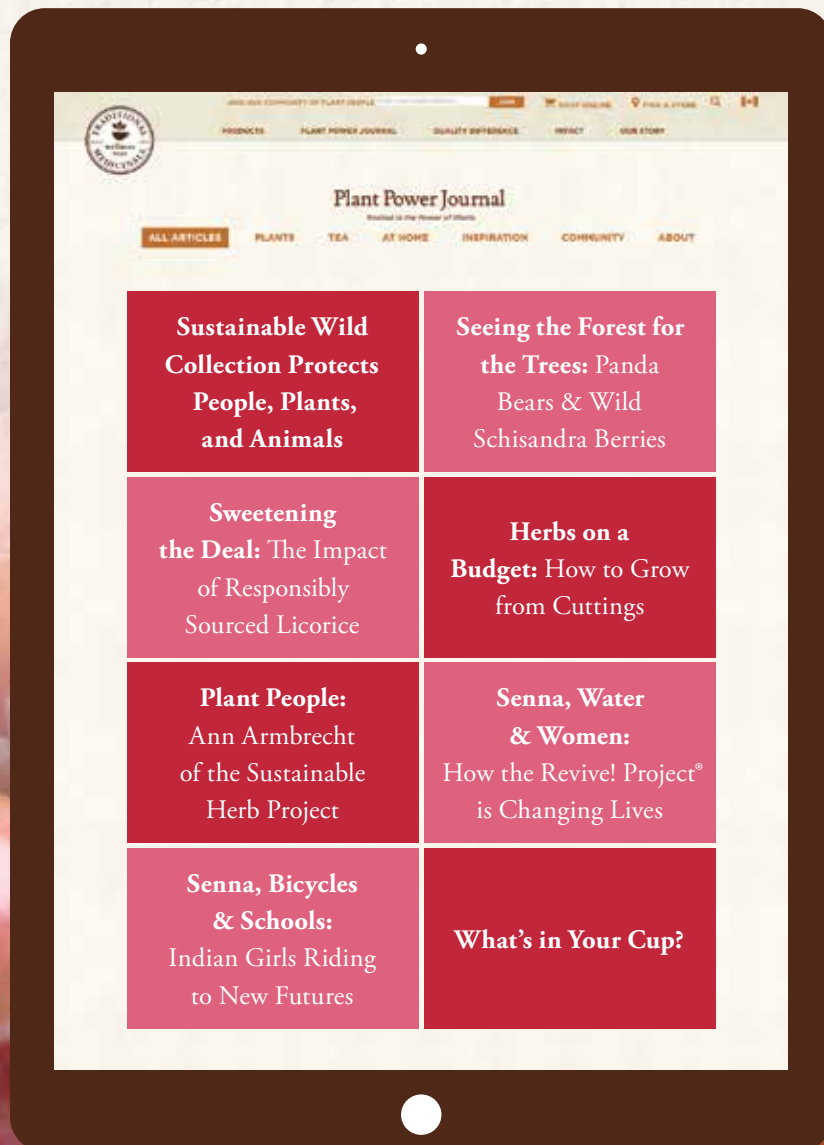
How We Measure Our Success in Sustainability Education

COMMUNICATING OUR IMPACT

We redesigned the “Impact” section of our website in FY 2016, featuring an at-a-glance page with some of the sustainability work we do, from our responsible sourcing and certifications to our social business initiatives and sourcing story videos. In addition, we also added a link to the company’s past three sustainability reports, each with their own page and set of highlights.

PLANT POWER JOURNAL ARTICLES & SOCIAL MEDIA CHANNELS

In 2016, Traditional Medicinals published eight sustainability-related articles on our blog, *Plant Power Journal*, typically under the “Community” category. We then promoted the articles through various social media channels. The numbers in the chart below reflect the reach (how many people saw the post) and engagement (“reactions, comments and shares”). The level of engagement is a testament to both our consumers’ interest in stories related to sustainability and to our investment in promoting them with advertising dollars. “Pageviews” shows how many people clicked over to our website to read these articles in 2016.



23,436 Likes



8,714 Likes

4,086 Video Views



(Organic & Paid)

2,143,677 Reached

235,978 Reactions/Comments/Shares



63,708 TM Website Pageviews

Schisandra berries (Schisandra chinensis), as featured in “Seeing the Forest for the Trees” in January 2016

A CLOSING STATEMENT FROM OUR CO-FOUNDER DRAKE SADLER

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Thank you for taking the time to read this lengthy report; your interest reflects a commitment to protecting our natural resources and a vision for the future. Doing this work of sustainability gives each of us purpose, and Traditional Medicinals resonates with that purpose as well. By following ethical business practices, we can all aspire to create financial, intellectual, social, cultural, emotional, spiritual, and ecological value. From our early beginnings 42 years ago, the company's founders were focused on making a living, and creating value in the right way. Back then, we called social business "right livelihood."

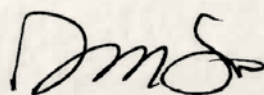
To be successful over these many decades, we've needed the right intentions, the right effort, the right conduct, the right skills, the right systems, the right information, the right resources, and most importantly the right people. That's why we've always advocated for equality and respect in the workplace, competitive wages and benefits, organic ingredients, equitable trading, sustainable practices, and the right care for the company cat(s).

The focus now is making our decisions, actions, and our use of limited resources count in the right way. And through these decisions and actions, we are in service to Mother Nature and her stewards. We promote the healing powers of plants, and we heal our impoverished supply communities. We build schools and provide access to education and training. We restore food and water security where there was none. We deliver rural health care where there were no clinics and doctors. We empower women and their families, and encourage their self-reliance. We also

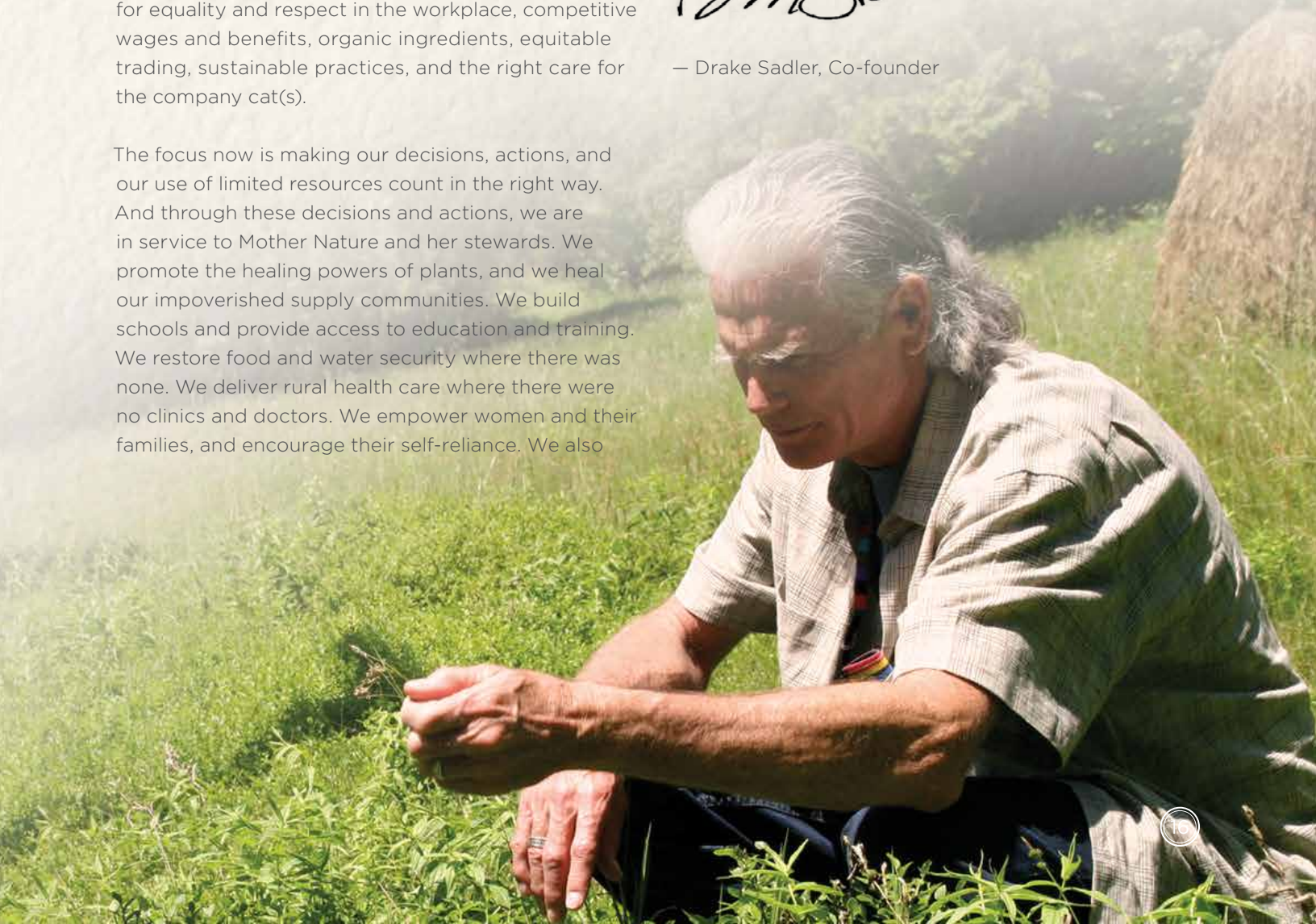
respect native cultures and are mindful to protect and preserve their ancestral knowledge. We invest our resources in these ways because it's right and its good business.

We are also developing a long-term strategy to preserve and protect Traditional Medicinals and its diverse culture. Our independent ownership affords us a unique opportunity to use the business for the greater social good and to explore a sustainable future.

This future would not be possible without all of our committed stakeholders and people just like you who take an interest in this kind of work. Thank you for providing us with this opportunity.



— Drake Sadler, Co-founder





Traditional Medicinals

4515 Ross Road
Sebastopol, CA 95472

Visit www.traditionalmedicinals.com to learn more.



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