

CO-OP PURPOSES REPORT 2016





CEO LETTER

There's a proverb that says, "A good deed dies when it is spoken about." The spirit of this belief — and an honest-to-goodness Pacific Northwest humbleness — moved our co-op to take a quiet approach to good deeds over the years, doing many, but speaking loudly of few.

If we had more broadly shared our accomplishments, you'd already know that in 2004, PCC was the first retailer to participate in Monterey Bay Aquarium's Seafood Watch Program, setting the bar for standards around the fresh fish and seafood we sell. You'd recall that our modest Pacific Northwest co-op was the first in the nation to build a store to LEED Gold standards in 2006, raising expectations for grocers in sustainability and green buildings. And, that we eliminated plastic shopping bags from our stores in 2007 — five years before the City of Seattle enacted its own plastic bag law.

These, and many others, are endeavors we share with members in our newsletter, Sound Consumer, and document annually for our Board of Trustees. However, we've never communicated them in aggregate with our shoppers and community. We felt it was time this changed.

The result is this document, PCC's first annual Co-op Purposes Report. This report establishes a foundation for what we've done in the past and, more specifically, in 2016. Within, you'll find a snapshot of our co-op's history in environmental sustainability, social responsibility and food advocacy; information and data from 2016; and stories that detail how we're making advancements toward our social, environmental and financial bottom lines.

We're using this initial report as an opportunity to offer context for where we focus our efforts and our co-op's resources. Next year, in our report covering 2017, we'll share the goals and aspirations we're setting for the future in the hope that you'll be inspired to help us reach them.

As a community-owned food market, we are accountable to our members. We've come to realize that a quiet approach will only get us so far in achieving our social and environmental goals. By sharing our work, we build community, we attract new people to our co-op, and we get closer to our mission of creating a cooperative, sustainable environment in which the natural and organic supply chains thrive.

Cate Hardy
CEO, PCC Community Markets



CO-OP PURPOSES REPORT 2016

PCC has a long history of commitment to our social and environmental bottom lines. This timeline highlights some of the most impactful actions we have taken.

PCC helps start Seattle's P-Patch Community Gardening program. Today there are 88 unique community gardens throughout the city.

1973

PCC finds a small farm in Eastern Washington that can supply organic eggs to the co-op. This is the start of the organic egg market in the Puget Sound area. PCC also partners with two Washington state farmers, bringing them into the Organic Valley farmer cooperative, thus initiating the Washington state organic milk market.

1994

PCC members provide over 30,000 comments to the USDA regarding its proposed national organic standards, rejecting irradiation, GMOs and sewage sludge in organics. The comments represent over 10 percent of all comments received by the USDA.

1997

PCC founds the PCC Farmland Fund, now known as PCC Farmland Trust, an independent 501(c)(3). The Trust protects its first farm — 100 acres on the Olympic Peninsula — in 2000.

1999

PCC switches its bulk teas to Fair Trade Certified options.

2002

PCC obtains organic certification for all of its stores. This means we meet strict organic handling standards to ensure the organic products you choose remain organic from farm to shopping basket.

2003

PCC is the first retail partner to participate in Monterey Bay Aquarium's Seafood Watch Program.

2004

PCC begins to sell Fair Trade GROW (Giving Resources and Opportunity to Workers) bananas.

2005

Redmond PCC opens. It is the first grocery store in the country built to LEED Gold specifications.

2006

PCC eliminates plastic shopping bags from all stores. Products that contain rBGH, added trans fat and high-fructose corn syrup are removed from store shelves.

2007

Edmonds PCC is one of the first grocery stores in the nation to earn LEED Platinum certification. It also is certified as Salmon-Safe.

2008

PCC adopts Fair Trade chocolate standards to ensure our chocolate is socially responsible and sustainable.

2013

Food Management Institute (FMI) recognizes the PCC Food Bank Program as one of the best in the nation.

2014

PCC adopts a set of animal welfare standards that are believed to be among the most stringent in the nation.

2015

PCC updates its standards for health and body care, identifying more than 500 ingredients that we now no longer allow. These standards are among the highest in the nation.

2016

PCC approves a new packaging standard that considers both the environmental and health impacts of materials found in the cups and containers used in our deli.

2017



ENVIRONMENTAL RESPONSIBILITY

Whether starting Seattle's first P-Patch, helping conserve Washington state farmland or building sustainably responsible stores, our co-op's commitment to protecting the environment is nearly as old as the co-op itself. Inspired by our mission to create a cooperative, sustainable environment in which the natural and organic supply chains thrive, we ask important questions about how products are sourced, meat is produced and vegetables are grown.

This is, in large part, because our biggest opportunity to effect environmental change is through our supply chain and the local farmers, ranchers, producers and vendors who fill our stores with their sustainable products.

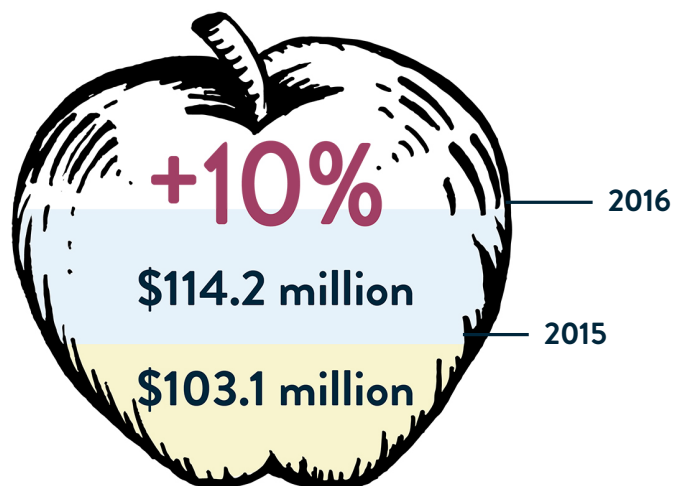
This has been true since 1994, when PCC helped introduce organic eggs and milk to Washington state shoppers, well before organics were widely available. We believe that organic agriculture reaps important benefits for the environment. That's why our co-op continues to advocate nationally for organic standards and practices, and why we annually certify each of our 10 stores as organic retailers. This commitment, and yours, has enabled PCC to grow our organic sales in 2016 by 10.8 percent, from \$103.1 million to \$114.2 million, over the prior year.

What we choose to put on our shelves isn't the only way we support a sustainable supply chain. Our co-op advocates for local and national government policies that support sustainable food systems, such as ensuring strong organic standards and improved animal welfare standards. We also partner with organizations that share our values, like PCC Farmland Trust, The Non-GMO Project, and the National Organic Coalition.

But it's not enough to have confidence in the efficacy of our products and their impact on the earth. As a retailer, we also work daily to conserve resources when we build and operate our stores. Today, we build each new store with

environmentally sustainable materials and methods, keeping resource conservation top of mind.

In 2016, we decreased electricity usage 4.2 percent per square foot, but increased natural gas usage by 4.6 percent per square foot, which meant we used about the same amount of energy in BTUs per square foot as the previous year. By continuing to monitor our energy use, and implementing re-lamping and efficiency programs in our stores, we hope to see an overall decrease in energy used next year. Through education and employee engagement in 2016, we were able to increase total tons of waste composted by 6.8 percent and maintain the previous year's total landfill diversion rate of 74 percent.



ORGANIC SALES GROWTH



SOCIAL RESPONSIBILITY

For PCC, social responsibility is as personal as the connection one of our PCC Cooks instructors makes with a student just learning the basics of cooking, and as significant as supporting global Fair Trade practices, which put people and the environment first. In 2016, our efforts to demonstrate our commitment to social responsibility were vast and varied, from ensuring we had excellent staff benefits to providing grants to local organizations and supporting local food banks.

At the heart of any PCC store is our staff. That's why we structure our compensation package with comprehensive benefits, affordable not just for staff but for their families as well. We have made a conscious decision to provide short- and long-term disability so that staff do not have to worry about income while recovering or when unable to return to work due to illness. In addition, PCC has long provided opportunities to adults with developmental disabilities and continues to partner with community and nonprofit organizations focused on supporting their employment.

In 2016, our co-op donated over \$1 million in in-kind and financial support to community programs, representing over 10 percent of our pretax net income. This included \$180,000 raised by PCC members and shoppers via the PCC Food Bank Program; grants to organizations like Indigenous Learning 360 and Meals on Wheels; donations through our SCRIP program to schools and nonprofits; and participation in local cultural and community events, such as Seattle Pride, CHOMP!,

MOHAI's Edible City exhibit, and Bothell's Freedom Festival Grand Parade.

A core principle of any co-op is educating its members and shoppers, and in 2016, our Market Nights and PCC Cooks programs led the way. With the goal of introducing low-income kids to healthy foods, our Market Nights program recreates a farmers market where kids shop for food and discover new flavors. PCC hosted Market Nights in 10 Seattle-area elementary schools in 2016. Additionally, our PCC Cooks program, which provides cooking education to the community, had nearly 6,000 students attend its classes.

Our co-op's social responsibility extends not only to the communities we serve, but also to the global community through PCC's support of Fair Trade Certified products. In 2016, the selection of Fair Trade products in our stores increased 12 percent, and we purchased more than 44,000 cases of fairly traded produce. That's enough produce to nearly fill two 747s.

Finally, our animal welfare standards, announced in 2015, were rolled out to our ranchers and meat and seafood vendors in 2016. The standards provide clear guidance on animal welfare to ensure that animals in our supply chain are treated humanely. Our team uses regular site visits and a comprehensive welfare checklist to assess new producers and audit existing ones.

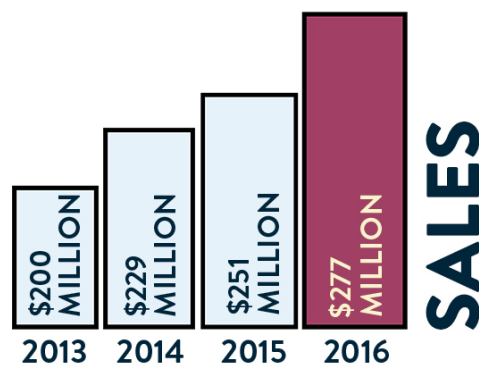
VALUES-DRIVEN FINANCIAL SUCCESS

At PCC, our financial bottom line is more than numbers on a balance sheet. We view the positive growth of our co-op as the strongest path to increasing our social and environmental impact. When we sell more organic produce, the local farmers we purchase from are able to farm more land in an organic manner, and invest in growing their own sustainable businesses. When we improve our financial bottom line, it allows us to provide more grants, donate more food and be a positive influence in the communities we serve.

In 2016, the co-op's sales reached \$277 million, an increase of 10 percent year-over-year. We increased our earnings margin for the third year in a row while maintaining our deep commitment to social and environmental responsibility.

But PCC isn't just committed to our community. As a co-op, we're owned by it. In 2016, our membership grew to 57,420

households, and we returned \$4.82 million (a 1.5 percent increase over 2015) to members through PCC's member benefits program.





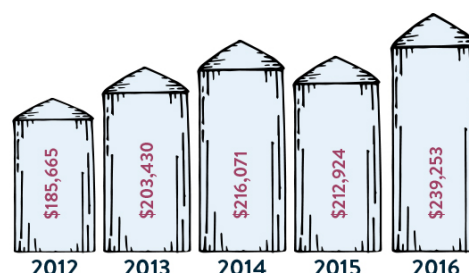
GROWING OUR IMPACT

Since our early beginnings as a food-buying club, PCC has worked to increase the positive impact we have on our community and environment. From protecting farmland to conserving water, we take action each day to preserve the environment for future generations. Our biggest environmental impact is our supply chain, so we are working to make it more sustainable, fair and humane. In our communities, we partner with co-ops and nonprofit organizations to make our community a better place.



PRESERVING SUSTAINABLE FARMLAND

In 1999, local farmer Nash Huber wanted to protect the Dungeness Farm in Sequim, Washington, from developers. He enlisted the support of PCC and in doing so, the PCC Farmland Trust — a 501(c)(3) organization — was born. The Trust has since protected more than 2,000 acres of farmland and continues to be a major beneficiary of our co-op’s giving. In 2016, PCC’s direct and enabled contributions to the organization totaled over \$239,000. In addition to donations received directly from PCC, these funds were donated by our shoppers through reusable grocery bag donations and the sale of specially marked reusable totes and other products. We are happy to continue to support PCC Farmland Trust and its preservation work.



**TOTAL DONATIONS TO
PCC FARMLAND TRUST**

TREATING ANIMALS HUMANELY

In 2015, we adopted new animal welfare standards because we believe animals should be treated humanely. To support this effort, we have an extensive checklist that’s used to audit all new vendors before we offer their product for sale. Our current vendors are reviewed on a bi-annual basis and lack of compliance, while rare, leads to swift action. In fact, in 2016, during a standard vendor review, we discovered that one of our ranchers was transporting cattle over long distances that were potentially inhumane due to the extended standing time. The

producer was unwilling to change its practices, so PCC moved our business to another rancher that met our high standards.

In addition to monitoring our supply chain, PCC continues to advocate for strong policies that protect animal welfare. In 2016, we provided written comments to the National Organic Standards Board on animal welfare, advocating for improved standards related to outdoor access, ammonia levels in poultry barns, physical alterations, and living space minimums.

ADVANCING THE CO-OP ECONOMY

Cooperation among cooperatives is one of the core co-op principles, and as the nation’s largest food market cooperative, PCC takes this principle deeply to heart. We support other co-ops locally and nationally through consultation, sharing best practices and development support. In 2016, in collaboration with National Co-Op Grocers (NCG), we lent our expertise to both the Boise Co-op in Idaho, and Lakewinds Co-op in Minnetonka, Minnesota. Our support included providing assistance during leadership transitions, helping conduct store audits, lending business-reporting expertise and sharing marketing best practices. We also partnered with NCG to

leverage our buying power and lower the cost of goods for other smaller co-op groceries across the country. Our largest initiative to date with NCG was the launch of Field Day, an organic and non-GMO store brand that is exclusive to co-ops. In addition to significantly expanding NCG’s efforts to make the line more affordable for hundreds of co-ops around the country, PCC also reduced the cost of organics for our members and shoppers by launching the new line. This decision also aligned with our commitment to ensure “PCC members and patrons will have access to high-quality, healthful food that is fairly priced.”



FEEDING OUR NEIGHBORS

Our co-op's commitment to food equity dates back to 1978, when we launched the Basic Food Basket program, which offered staples such as grains, beans, produce and dairy at a reduced price. As the needs of our community changed, though, so too did our approach. In 1989, we created the PCC Food Bank Program, and 25 years later, it continues to offer nutritious choices to those in need. The program has two parts: One is grocery rescue through which our stores donate staples, produce and meats to local food banks. The other consists of our annual food drives, where shoppers donate funds to purchase nutritious bulk foods most needed at each food bank at discounted wholesale prices. In 2016, PCC shoppers' financial donations enabled our co-op to donate over 120,000 pounds of food to 13 Puget Sound-area food banks.



CLEANING UP HEALTH & BODY CARE

Skin is the body's largest organ, and we believe that what we put on our body is just as important as what we put in it. In 2016, we rolled out rigorous new ingredient quality standards for health and body care. Today, more than 500 ingredients are no longer allowed, including some commonly allowed

in "natural" products. These new standards, considered among the highest in the nation, are inspiring some national manufacturers to reformulate their products — ultimately influencing the health and body care industry as a whole.

CONSERVING WATER

Clean water is an important part of ecosystems and agriculture. Water also is one of the biggest resources we use in our stores — to keep our produce fresh, to cook the food we make from scratch in our stores each day, to wash the dishes that we dirty, and to keep our stores clean. In 2016, we expanded our focus on water conservation with attention given to how we remodel and build our stores. The first step was to track our monthly water usage. We did this by installing sub-meters on equipment and sinks in our deli, produce and meat

departments. The meters gave us an accurate picture of our water use and what we learned was eye opening. Based on this new data, we discovered our water use was under-reported, and we had big opportunities for improvement. Armed with this newfound knowledge, we repiped deli drain lines in cast iron, and removed water-tempering devices on our steamers at our Greenlake Village and Columbia City stores. These actions resulted in about two million gallons of water savings annually — enough to fill three Olympic-sized swimming pools.