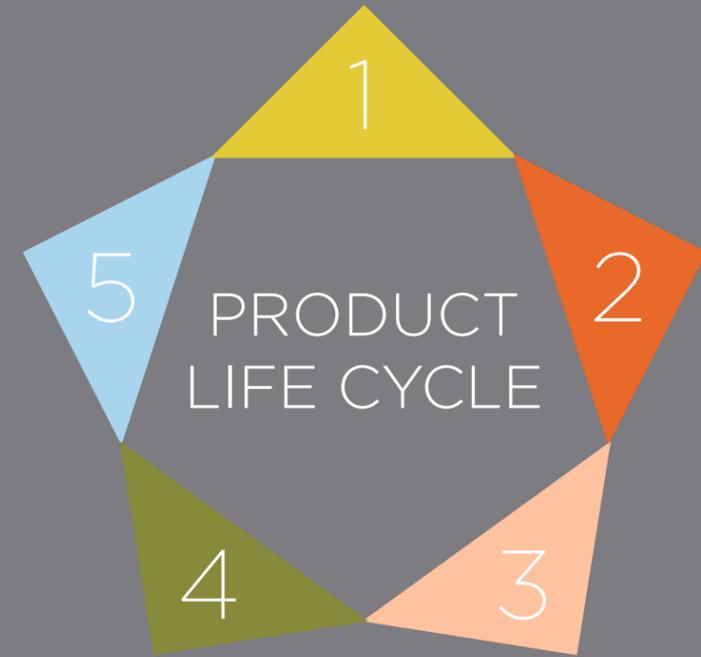


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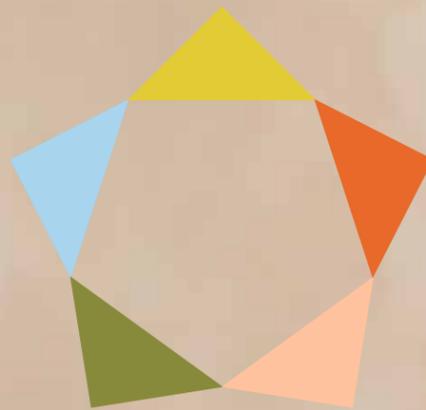
AVEDA
THE ART AND SCIENCE OF PURE FLORAL AND PLANT ESSENCES

THINK



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ABOUT THIS
REPORT + AVEDA



In this report, we present our Earth and Community Care performance for fiscal years 2013 and 2014. We've organized the report around the entire life cycle of Aveda products to give stakeholders a holistic view of the Aveda Mission across all aspects of the company. Starting with the design of Aveda products, the life cycle covers sourcing of key ingredients and materials for products and packaging, our manufacturing and distribution operations, the ways in which Aveda products are experienced through the Aveda Network, and our approach to the end of product life.

Creating successful high performance products that provide environmental and social benefits is a complex and challenging process made possible through the engagement of a wide

range of experts within and outside of the company. Life cycle thinking is central to the challenges of implementing the Aveda Mission and to meeting our business goals. Rather than approaching sustainability in a set of narrow focus areas—for example, increasing energy efficiency in manufacturing or providing community benefits in conjunction with sourcing—we seek to understand and address environmental, social, and economic sustainability within and across different stages of the product life cycle. This broader focus can lead to opportunities such as addressing energy efficiency in the design of selected products as well as more efficient manufacturing technologies and the reduction of greenhouse gas emissions from product shipments.

Seeking to achieve our goals at all stages of our product life-cycle and resolving the many challenges that remain throughout our business, requires the dedication of Aveda employees to the Aveda Mission. Many diverse stakeholders help Aveda employees create and deliver high performing hair and skin care products that further the Aveda Mission. These include product development partners at ELC and external organizations, supply chain partners from organic agriculturalists to packaging suppliers, and engineering consultants who help achieve energy, water and waste efficiencies in our operation, and our independent salon and spa partners and skilled sales representatives who

work with our ultimate stakeholders—our pro-fessionals and guests—to achieve the well-being outcomes that are at the core of our product experience.

In each life cycle section of this report, we present Aveda's performance in fiscal years 2013-2014 on relevant issues and on the engagement of Aveda staff and stakeholders who are responsible for our achievements, grapple with our challenges, and push us forward toward our goals. The Aveda Mission drives the holistic approach to products and relationships with stakeholders and is a key aspect of our business success.

ABOUT AVEDA

Aveda is a member of the Estée Lauder Companies, Inc. (ELC) (elcompanies.com) family of prestige brands, which purchased the previously privately-held company in 1997. Aveda operates in a complex "business ecosystem" where Aveda's operations are integrated with ELC



Life cycle thinking is central to the challenges of implementing the Aveda Mission and to meeting our business goals.

PRODUCT LIFE CYCLE PHASE	OPPORTUNITIES	CHALLENGES
PRODUCT + INGREDIENT RESEARCH + DEVELOPMENT	Differentiate Aveda in the marketplace; enhance business success; greatest opportunity to address sustainability issues across the entire life cycle	Evaluate new high performance technologies and ingredients for Mission alignment; ongoing improvement of existing ingredient formulations
INGREDIENT SOURCING	Engage supply chain in the Aveda Mission; support sustainable development of communities; improve sustainability performance of different ingredient categories from bulk commodities to highly specialized botanicals and essential oils	Ensure traceability to the source, increase reliability of delivery, consistently meet quality standards, deliver sustainability benefits to communities and ecosystems; evaluate and encourage improvement in supplier sustainability performance
MAKING + DELIVERING PRODUCTS	With 80% of Aveda's product volume manufactured in Blaine, there is a high degree of control over production processes; potential for reductions in resource use, GHG emissions, wastewater, and waste; engage Aveda employees in the Mission	Address increase in energy use through process improvements for high performance formulas that require added energy; respond to increase in production levels with actions to reduce environmental impact; work with partners to help restore and enhance damaged ecosystems as business grows
THE AVEDA PRODUCT EXPERIENCE	Deliver guest professional experience of products in low impact manner; generate more value with less consumption of resources; engage Aveda Network and guests in the Mission	Address lowering energy and water consumption for guests and salons using Aveda products; maximize Aveda Network participation in Mission-related activities
PRODUCT END OF LIFE	Over time substituting certain product ingredients to different product ingredients that are considered biological nutrients; all packaging content is considered technical nutrients	Certain ingredients that do not meet Cradle to Cradle biological nutrient status; get post-consumer materials into the recycling stream so the technical nutrient status can be fulfilled; reduce product returns

OUR MISSION AT AVEDA IS TO CARE FOR THE WORLD WE LIVE IN, FROM THE PRODUCTS WE MAKE TO THE WAYS IN WHICH WE GIVE BACK TO SOCIETY. AT AVEDA, WE STRIVE TO SET AN EXAMPLE FOR ENVIRONMENTAL LEADERSHIP AND RESPONSIBILITY, NOT JUST IN THE WORLD OF BEAUTY, BUT AROUND THE WORLD.

and a web of suppliers, salons and spas, retail operations, educational institutions, and individual hair stylists and estheticians (the Aveda Network). We strive to deliver high performance personal care products and related services in a socially and environmentally responsible manner (for more information please refer to the 2011-2012 Earth and Community Care Report¹). Development, manufacturing, and marketing of plant-based personal care products in conjunction with the training and support of industry professionals continue as core Aveda commitments. Oversight of these activities is the responsibility of the Aveda President and the Aveda Stewardship Team, which includes senior leaders of all major business functions.

Our supply chain touches all continents except Antarctica and our geographic distribution includes North America, Europe, Asia, and Australia. Professional salons and spas remain our core distribution channel with supplementary channels that include Aveda-owned and independent retail Experience Centers and Lifestyle Salons and Spas, Aveda and independently-owned Institutes that train industry professionals, select department stores and specialty retailers, and online sales through Aveda.com.

Our ongoing integration with ELC, particularly around research and development, supply chain, manufacturing, and quality, generates mutual benefits as Aveda shares and learns best practices with other ELC brands and gains access to systems that enhance efficiencies and consistency in multiple areas of our business.

The establishment by ELC of a dedicated sustainability function with the hiring of ELC's first Vice President of Global Corporate Responsibility in early

FY2014, is creating opportunities for Aveda to advance our mission with supplemental resources and assistance in the development of corporation-wide sustainability strategies. For example, an assessment of impacts across ELC's value chain, which yielded information on Aveda's product life cycle environmental impacts (greenhouse gas emissions, land and water use, and waste) helped identify strategic opportunities for improvement, particularly in the supply chain and product use areas.

As we become more integrated with ELC's corporate responsibility structure, we are taking a hard look at ourselves and what leadership in our industry looks like now and in the future. Aveda's pioneering efforts in our earliest years to establish the high performance potential of plant-based ingredients and products, our two decades of work incorporating recycled content into standard industry packaging, and our initiative over the past decade that brought Cradle to Cradle products to the beauty and personal care products market have certainly set a high bar. Leadership requires that we be ever more creative in evolving our business and that we make investments such that the Aveda Mission continues to serve as our ongoing guidepost to business success.

OUR PROMISE

This biennial report reflects Aveda's promise to improve our earth and community care performance and to engage with key stakeholders—our employees, the Aveda Network, our industry peers, and our suppliers. We continue to seek to stay true to the Valdez/Ceres principles, in particular to being transparent about our performance, as we have since 1989 when

¹ Available at [REFERENCE]. Additional Earth and Community Care reports are found at [REFERENCE].

Aveda became the first company to endorse this ground-breaking code of conduct.

Our deep and inclusive commitment to social responsibility has been implemented within our business in wide-ranging ways. With this commitment, we aspire to benefit everyone we touch throughout the life cycles of our products, from the communities where we source key natural raw materials, to those in which we manufacture and operate, to our professional network and their guests, and ultimately the planet.

THE CERES PRINCIPLES

1. Protection of the Biosphere
2. Sustainable Use of Natural Resources
3. Reduction and Disposal of Wastes
4. Energy Conservation
5. Risk Reduction
6. Safe Products and Services
7. Environmental Restoration
8. Informing the Public
9. Management Commitment
10. Audits and Reports

AVEDA LIFE CYCLE	WHAT WE ACHIEVED	WHERE WE FELL SHORT
PRODUCT + INGREDIENT RESEARCH + DEVELOPMENT	<ul style="list-style-type: none"> • C2C certifications or re-certifications for 11 products • Completed 25 projects to address the changing global regulatory environment • 15 projects to manage raw material shortages • Implementation of research and products in development designed to reduce resource consumption in use 	<ul style="list-style-type: none"> • New formulations and ingredients that require greater manufacturing energy • Ongoing evaluation of Aveda's Green Ingredient Policy not expected to be completed until FY2016
INGREDIENT SOURCING	<ul style="list-style-type: none"> • Ongoing use of ingredients that incorporate sustainable agriculture and/or certified organic raw materials including 94% certified organic essential oils and 92% certified organic herbal ingredients by weight • Continued commitment to greater traceability for PKO derived ingredients and to use RSPO sources. including organic certified palm fruit oil² • Water-related sourcing community benefits projects funded through Global Greengrants Fund in India, Nepal, Brazil and Madagascar 	<ul style="list-style-type: none"> • Level of investment needed to increase traceability, build stronger local communities, increase small supplier reliability and quality, and improve small supplier business resilience • Complete documentation of Aveda supplier alignment with the Aveda Mission

² Purchases of RSPO certified ingredients began after FY2014, however, research on availability began during the reporting period.

AVEDA LIFE CYCLE	WHAT WE ACHIEVED	WHERE WE FELL SHORT
MAKING + DELIVERING PRODUCTS	<ul style="list-style-type: none"> • Joined other businesses in BICEP to advocate for science based climate change policy • Water use and industrial wastewater down from FY2012 by 6% (absolute) • All types of waste generation down from FY2012 by 11-18% (absolute); recycling up from FY2012 by 4% (absolute) • Implemented Aveda Mission Leader™ platform for employee engagement • Blaine employee volunteer participation rate of 35% • Honey Bee Project at Aveda Blaine campus 	<ul style="list-style-type: none"> • Energy use up from FY2012 by 17% (absolute) • Greenhouse gas use up from FY2012 by 9% (absolute) • Safety related incidents (including near misses and property damage) increased by 65% between FY2012 and FY2014
THE AVEDA PRODUCT EXPERIENCE	<ul style="list-style-type: none"> • \$6 million raised during Earth Month • \$200,000 given to Hurricane Sandy Relief programs • 97% of Aveda Lifestyle Salons and Spas participate in Earth Month • Catwalks for Water trashion shows 	<ul style="list-style-type: none"> • Relatively low participation rate (72%) of U.S. Aveda Concept Salons in Earth Month • Initial Green Salon Project did not meet goals (20-30% participation); relaunch planned for FY2016
PRODUCT END OF LIFE	<ul style="list-style-type: none"> • Full Circle packaging take-back program rolled out to Experience Centers • Introduction of more 100% PCR HDPE bottle components and introduction of PCR in non-dispensing polypropylene caps • Introduction of product packaging tubes made with a sugar cane-based polyethylene bio-resin that is 96% plant derived blended with PCR polyethylene • Introduction of 100% PCR coated paper stock for folded cartons and hang tags 	<ul style="list-style-type: none"> • Continue to seek higher recycled content in aluminum tubes while in maintaining required performance characteristics

PRESIDENT'S LETTER AND HORST LEGACY

Dear Stakeholder,

HORST MARTIN RECHELBACHER, the founder of Aveda, passed away on February 15, 2014. In his approach to life, he taught us a way of living that is the Aveda style. More than a teacher, Horst was a student of life, making the most of his earthly journey, learning from direct experience, and being generous in sharing his knowledge. He was a grand master and we are his disciples.

Horst was a lone voice for environmental sustainability in the beauty industry when, in 1978, he started Aveda with the Earth and its communities as its key stakeholders. That Aveda became the first corporate endorser of the Valdez/Ceres principles in 1989, reflects Horst's vision of learning and sharing.

Today, the challenges of sustainability confront us in much the same way as they did when Horst started Aveda. We have learned much over the decades and have made changes, but the critical challenges have not gone away. Indeed, they have become more threatening and considerably more urgent. Our challenge is to recognize that time is short and that solutions will require a profound self-transformation to embrace holistic thinking in ourselves and in our communities. This transformation became the focus of Horst's life and his advocacy of the Aveda style.

Holistic thinking gives us the right starting point as ultimately, what we do to the Earth, we do to ourselves and to our children. It also promotes the creativity needed to tackle the complex interdependencies of socio-environmental issues. The Earth and its communities must be part of the equation from the start of our creative process, through the lifecycle of the products we make.

Horst was bold. Confronting the status quo with boldness gives us the courage to undertake what seems impossible and the faith that transformation will be successful. Declaring a timed and quantified goal before having the detailed understanding of how to achieve it, energizes the community and brings it together in a quest to attain ambitious accomplishments. It exemplifies Horst's vision of the Aveda style that we are at once students and teachers who, together, can solve the most difficult challenges.

Our values are the building materials of our destiny when we align our actions with what matters most to us. Sustainability strategies and technologies will only take us so far. A sustainable Earth demands that we care deeply about our collective future and exercise our free will with a commitment to rebuild and maintain the integrity of all that flourishes on the planet.

Yours in service to the Earth,



DOMINIQUE CONSEIL

VICE PRESIDENT OF EARTH AND COMMUNITY CARE'S LETTER

Dear Colleagues and Guests,

This report is a shift in the way we tell the Aveda story. We have always had a holistic approach to our business with concerns about everything from the soil that nurtures our plant-based ingredients to the bottle in which we deliver our products and to the wellness promoted by Aveda professionals and enjoyed by our guests. That holistic perspective is embedded in our name: Aveda—knowledge of the whole—and is reflected in the organization of this report around the Aveda product life cycle.

Using a product lens in the report helps communicate our focus on the impacts of our business and the ways in which the Aveda Mission lives in the world that we touch. Of course, not everything we do fits neatly into a single phase of the product lifecycle. Many activities extend across life cycle phases and some do not have a direct link to products. Yet, every person in Aveda and the beauty professionals in our Network collectively work together to deliver exceptional products and services through which our guests experience the value embodied in every bottle, tube, and jar we sell.

Examples of lifecycle systems thinking are found throughout this report that have led to improvements in the way we do R&D, procurement, manufacturing, distribution and Mission engagement. The report also features instances of our continued learning where we have come to understand how decisions in one aspect of our business affect other aspects, such as the way a formulation for a product determines the energy required to manufacture it.

This holistic approach defines the groundbreaking journey we've pursued, along with a wide range of fellow travelers to meet its challenges. We remain actively engaged with Ceres, receiving input from their staff and exchanging insights with other members of their business network. In 2014, we expanded our involvement through membership in their BICEP (Business for Innovative Climate and Energy Policy) coalition. We also continue participation in the Sustainable Packaging Coalition, the Cradle to Cradle movement, and an ongoing group of corporate sustainability professionals who share state-of-the-art best practices. We seek out working relationships with a wide range of nonprofit organizations in our Minnesota home and around the world, and we maintain active collaborations with many of our suppliers and vendors who share a commitment to the values of the Aveda Mission.

Our pioneering heritage and the passion for the Aveda Mission still drive us as we continue to pursue the 2020 Vision established in our 2009–2010 report. We know we still have a long way to go and that the road ahead will not be easy. As Dominique Conseil states so eloquently, “the challenges faced by our planet have never been greater or more urgent.” With this report on our activities for fiscal years 2013–14 (July 2012 through June 2014), we renew Aveda's commitment to strive for the environmental leadership and responsibility needed to meet them.

Yours in care for the world we live in,



DAVE RAPAPORT



PRODUCT + INGREDIENT
RESEARCH + DEVELOPMENT



Nº 1

At the foundation of our business and the product life cycle is the development of high performance personal care products made with naturally derived ingredients. That was true at Aveda's founding over 35 years ago and continues today as we differentiate Aveda in the personal care products market through the development of new formulas and ingredients that reflect the art and science of transforming naturally-derived³ materials into exceptional hair, skin, body care and pure-fume™ aroma products. Our researchers combine expertise in pharmacognosy (the study of medicinal substances that come from natural sources such as plants), green chemistry, biology, botany, aromatherapy, biochemistry, physics, chemical engineering, and phytotechnologies. They spend time in the lab and

³We define naturally derived ingredients to be those for which more than 50% of the molecule comes from a plant, non-petroleum mineral, water, or some other natural source.

HIGH PERFORMANCE INNOVATION— BOTANICAL KINETICS HYDRATING FACE CRÈMES

Aveda's new Botanical Kinetics™ Hydrating Face Crèmes harness the vital energy of plants to improve the skin's ability to renew itself. *Salicornia herbacea* thrives in the harsh, salty conditions of the seashore, yet remains moist and succulent because of the plant's unique ability to manage water within its tissues. BK crèmes use an extract of *Salicornia* that *in vitro* testing has shown supports skin cells' natural water channels (aquaporins) to help the skin readily absorb moisture. We complement the *Salicornia* extract with certified organic cupuaçu butter from Brazil that is pressed directly from the seeds of the fruit of the small tree, *Theobroma grandifolium*. The cupuaçu butter contains lipids like the skin's own to help replenish and seal the skin barrier and prevent moisture loss. The result is innovative crèmes with beautiful aesthetics that delight consumers and deliver documented performance: long-term moisturization for supple, healthy-looking skin.



in the field searching for botanical active compounds that serve functional purposes in our hair and skin care formulas and help meet our requirements for professional level performance in our products.

From our beginnings as a company, we have pursued a path of learning from nature in an effort to be respectful of the earth and its inhabitants. This has led us to a holistic view of our products from conception to sourcing and manufacturing to distribution, use, and the end of useful life where we strive to develop ingredients and design products that benefit nature and the people and communities we touch.

Aveda is the ELC Corporate Center of Excellence for Hair Care and NOGS (Natural, Organic, Green and Sustainable) and the Corporate Key Category Leader for Shampoo/Conditioner, Styling, Professional Hair Color & Texture and Phyto-technologies (plant-based solutions to scientific and engineering problems). Aveda works closely with ELC scientists on the ELC Green Chemistry Initiative and ELC packaging experts, who are building on past work with Paul Anastas, one of the founders of the Green Chemistry movement, and our groundbreaking work on recycled content in packaging.

Life cycle thinking has led us to develop policies and processes that help guide daily business decisions. In conjunction with these, we use a suite of tools and maintain a dialogue with knowledgeable experts and organizations in and outside of our industry to identify ways



in which we might improve our environmental and social performance.

Our policies, processes and tools for implementing the Aveda Mission in product and ingredient development include:

- Preference for green ingredients, defined as being plant or mineral (non-petroleum) derived, certified organic, and/or sourced from sustainable or renewable plant-based origins without harm to ecosystems
- Products that take into account performance, environment, and community well-being across our supply chains including the farming and wild harvesting operations for key ingredients
- Our *Mission Aligned Ingredient Review* process, which includes consulting with EPEA⁴, an independent scientific organization led by one of the founders of the Cradle to Cradle™ (C2C) movement, Dr. Michael Braungart, on Cradle to Cradle™ principles
- Cradle to Cradle™ certification and recertification for selected products, which considers the product life cycle via the Cradle to Cradle Products Innovation Institute (C2CPII)
- Application of green chemistry principles⁵ to ingredient and formula development; the principles are the basis for the ELC Green Chemistry initiative
- Dialogue with academic researchers and industry groups to identify areas of opportunity to improve performance

PRODUCT AND INGREDIENT PERFORMANCE

Our vision is to create a “big, healthy footprint” and “leave no trace.” We continue to challenge ourselves to integrate “naturally derived,” “sustainability” and “performance” in our products and our ingredient choices. Working with EPEA helps us in this ongoing journey.

2014 C2C CERTIFICATIONS⁶

PRODUCT	CERT.
Men Pure-formance™ Shampoo	Gold
Men Pure-formance™ Conditioner	Gold
Dry Remedy™ Masque	Gold
Dry Remedy™ Shampoo	Gold
Dry Remedy™ Conditioner	Gold
Dry Remedy™ Daily Moisturizing Oil	Gold
Invati™ Shampoo	Gold
Invati™ Conditioner	Gold
Invati™ Scalp Revitalizer	Silver
Smooth Infusion™ Shampoo	Gold
Smooth Infusion™ Conditioner	Gold



Our vision is to create a “big, healthy footprint” and “leave no trace.” We continue to challenge ourselves to integrate “naturally derived,” “sustainability” and “performance” in our products and our ingredient choices.

⁴ Environmental Protection Encouragement Agency, Hamburg, Germany
⁵ The Green Chemistry Principles are available at USEPA's Science Matters website: <http://www.epa.gov/sciencematters/june2011/principles.htm>
⁶ Calendar year certification date; all products were previously certified and either re-certified for the existing formula or for an updated formula.

PRODUCT SIMPLIFICATION

At Aveda, we are constantly looking at what we can do better to fulfill the Aveda Mission. One way we do that is to periodically revisit how we formulate long-standing products. Rather than building a formula from the ground up as we would with a product in development, we are also looking to improve and simplify existing Aveda products. In some cases, simplification provides additional benefits including reductions in potential ingredient interactions that may decrease performance and lower loads on water treatment facilities. Over the past few years, we have been phasing out of the use of halogenated preservatives, such as Kathon.

During the FY2013–2014 time period, we sought C2C certification of new products and re-certification of existing products with a goal of achieving gold status for product ingredients and silver status for packaging (due primarily to proprietary colorants and inks used in packaging that could not be assessed). In our previous report, we discussed our limited access to our suppliers' proprietary information and our efforts to direct future packaging development away from certain colorants and inks.

Development of high-performing products is a key part of Aveda's differentiation in the marketplace and business success. In past reports, we have discussed the increasing professional and consumer demand for high performance product formulas that result in longer cycle times and processing with heating and cooling, sometimes under pressure, all of which contribute to increased energy use and GHG emissions compared with formulas that are manufactured at ambient temperatures.

Addressing these impacts will require better coordination between product development and manufacturing, ongoing research into formulations

that may be more energy efficient in production, and capital spending to increase operational efficiencies via deployment of technologies such as heat exchangers on tanks and high efficiency motors for mixing. To help create alignment with the Aveda Mission across the life cycle, we need to address the energy implications of new product formulas and reformulations with more efficient manufacturing methods, formulation changes that require less energy use, or a combination of the two approaches. The impacts of these changes on production and energy consumption and associated GHG emissions are discussed in Section 3.

Aveda continues to maintain our commitment to organic ingredients—for example, 94% of essential oils by weight sourced in 2013 were certified organic. Organic farming practices incorporate rotation for soil health, increased carbon in soil, avoidance of polluting groundwater and rivers and lakes, and maintenance of biodiversity.

INNOVATION POWERED BY NATURE

Cindy Angerhofer has been Aveda's Executive Director of Botanical Research since 2003. Cindy is an expert in understanding the ways in which plants and substances derived from plants may act on the human body. At her first job after graduating from college, she found herself researching vitamin E and becoming interested in natural products. That led to graduate school, a Ph.D. in pharmacognosy, and over 50 publications in peer reviewed journals. Using up-to-date technologies such as bioassays and DNA microarrays, Cindy leads a group of researchers adept at identifying and evaluating the efficacy of botanical substances that may be appropriate ingredients for Aveda personal care products. As Cindy puts it, "At Aveda, we believe in creating products that feature the power of Nature. Plants grow in some of the most challenging environments on earth, so they have learned to create natural chemicals that protect them and help them to thrive. These same substances can be beneficial to humans when incorporated into well-crafted beauty products."



"At Aveda, we believe in creating products that feature the power of Nature. Plants grow in some of the most challenging environments on earth, so they have learned to create natural chemicals that protect them and help them to thrive. These same substances can be beneficial to humans when incorporated into well-crafted beauty products."

GOALS	2020 VISION ⁷	2014 GOAL	2014 PROGRESS
	All products made from ingredients that optimize the balance between naturalness, sustainability and performance.	Evaluate Green Ingredient Policy to reflect updated vision.	Evaluation ongoing; policy update expected by FY2016
	Products that achieve well-being with minimum requirement for use of resources.	Offer in our innovation pipeline, potential products that reduce resource consumption in use.	New dry shampoo launching in 2015

We have maintained our current Green Ingredient Policy and Mission Aligned Ingredient Review process as we work to integrate Aveda's product research and development activities with ELC's Green Chemistry approach. With broader integration of R&D into ELC's product development process, Aveda focuses on that which Aveda uniquely has knowledge and scale such as hair and body care while relying on ELC's strengths in other areas. For example, Aveda's color cosmetics are now formulated by ELC and with Aveda oversight.

PRODUCT DEVELOPMENT 2016 GOALS

In pursuit of our 2020 vision for products that minimize resources and ingredients that balance naturalness, sustainability, and performance, our 2016 goals are to:

- Achieve an average of 97% naturally derived ingredients for new retail product launches
- Implement formalized review of manufacturing energy requirements during new product formulation and production process development

Our 2020 vision for products is to minimize resources and ingredients that balance naturalness, sustainability, and performance.



⁷ 2020 Vision first published in 2008-2010 ECC report and hasn't been updated as of this report.



Nº 2

Integrating the Mission into how we source our ingredients is a core aspect of Aveda's approach to business. Our founder, Horst Rechelbacher, built Aveda on a foundation of high performance products using plant-based ingredients, often sourced where possible from traditional communities in a mutually beneficial relationship. Horst celebrated the diversity of native plants, never forgetting the indigenous cultures and human communities who harvested or cultivated them. His leadership led Aveda to strive for a responsible level of care towards the earth and our relationships with our sourcing partners and the communities in our supply chains. Aveda's ability to make and deliver our products requires a diverse group of suppliers capable of meeting our needs for ingredients that range from bulk commodities

Aveda staff are working with strategic suppliers such as Beraca to better understand the small scale growers and wild harvesters of raw materials and the processors that transform harvested materials for suppliers' use in manufacturing ingredients that Aveda purchases.



and 92% of herbal ingredients by weight were certified organic in 2013), Aveda staff are working with strategic suppliers such as Beraca (see sidebar) to better understand the small scale growers and wild harvesters of raw materials and the processors that transform harvested materials (e.g., oil extraction) for suppliers' use in manufacturing ingredients that Aveda purchases.

In addition, we are continuing to seek potential alternative supply sources in response to the risks of crop disruptions posed by the effects of global climate change on agriculture and wild-harvested plants. And in some cases, we encourage farmers, harvesters, and suppliers that are overly dependent on sales to Aveda to seek out alternative customers or markets for their ingredient raw materials to minimize adverse effects if Aveda ingredient needs change over time.

PALM-DERIVED INGREDIENTS

Aveda uses a limited amount of palm fruit oil as an ingredient in its products, all of which is produced in Brazil. This palm fruit oil is certified organic, RSPO (Roundtable on Sustainable Palm Oil) certified as Identity Preserved⁹, guaranteeing traceability to the producer, and Ecosocial certified by IBD Brazil, assuring that the producer practices fair trade and invests in human and social development programs for employees, farmers and neighborhood communities and in environmental conservation.

Aveda's GSR team operates within the ELC Global Supply Chain group and works closely with Aveda Research and Development staff to identify suppliers that have the ability to deliver ingredients that meet our functional performance and quality requirements, are fairly priced, and provide environmental and social value. Because we are committed to sustainable agriculture and using certified organic ingredients where available (for example, 94% of essential oils

Aveda also uses palm kernel oil (PKO) derivatives in some of our products. We, along with ELC, are committed to working in collaboration with our suppliers to enhance the traceability of the PKO derived ingredients that we use and the development of sustainably sourced alternatives. Since 2003, as part of our effort to use sustainably sourced ingredients, Aveda has developed ingredients that can replace certain PKO derivatives, using certified organic babassu oil, harvested by traditional communities in Brazil, as a starting material for babassu betaine which is used in a number of our products.

ELC has also begun to substitute RSPO-certified Mass Balance alternatives for existing non-certified PKO derivative ingredients in some formulas and is committed to purchasing more RSPO-certified Mass Balance alternatives as they become available. In the interim, ELC is purchasing Green Palm certificates starting in FY2016 for non-certified PKO derivative ingredients including those used by Aveda. Aveda is also seeking novel to develop alternates to PKO derivatives derived from sustainably grown oil seed crops.

As part of a more comprehensive policy on palm oil, ELC's enhanced actions and goals include a no-deforestation policy, which requires our high-volume suppliers to ensure that they prohibit new clearing or palm development on high carbon stock, high conservation value forests and peat lands, or the use of fire for the preparation of new planting or re-planting. By the end of 2015, all suppliers of ELC's high-volume palm oil, PKO and PKO derived ingredients,

including suppliers used by Aveda, will be required to provide third-party verification that they are complying with the deforestation policy.

Aveda continues to source a very high percentage of our specialty ingredients as certified organic and expect to have ongoing incremental improvements. We have also made some minor progress in our commodity ingredients (e.g., surfactants) where we have improved traceability. Additional progress in the area of palm derivative ingredients represents will be a priority for Aveda and ELC in the coming years.



⁹ Further information on the Roundtable on Sustainable Palm Oil is available [here](#). There are four models for the certification of palm along the supply chain:
 • Identity Preserved where a single RSPO certified source material is segregated throughout the supply chain
 • Segregated where different RSPO certified source materials are segregated throughout the supply chain
 • Mass Balance where RSPO certified source materials are mixed with noncertified source materials throughout the supply chain
 • Book and Claim where manufacturers and retailers can buy a GreenPalm certificate for a quantity of RSPO certified materials that are sold into the noncertified market

INGREDIENT SOURCING PROGRESS

GOALS	2020 VISION	2014 GOAL	2014 PROGRESS
	Sourcing that supports/preserves/enhances biodiversity, people and resource conservation. Local sourcing where practical	Goals under review. Supply chain realities make 100% unlikely—will continue to obtain the highest % possible	Maintained high rates of organic ingredient use: 94% for essential oils and 92% for herbal ingredients by weight
	Supply chain partners are aligned with Aveda Mission/beliefs/C2C commitments	50% of Aveda suppliers qualified under ELC supplier screening process	All potential new Aveda only direct suppliers in FY2014 received ELC Code of Conduct evaluation

WORKING WITH SUPPLIERS

The GSR team continues to develop its knowledge and expertise in the supply chains of our ingredients through informal dialogue with our suppliers. When a supplier is in a region where child labor has been known to be a problem, we seek to understand what drives its use, how to monitor for it, and what alternatives may exist to eliminate its use such that the supplier may meet the ELC

Supplier Code of Conduct requirements and Aveda’s Mission. We are looking to be more systematic in our approach and to measure the benefits of engagement with our suppliers.

In FY2014, we began working on an Aveda policy for responsible sourcing that aligns with the Aveda Mission by adding selected standards to the ELC supplier and ingredient policies and procedures. The policy effort was put on hold pending completion of the development and implementation of a corporation-wide responsible sourcing policy. When that is complete, we will determine if further action is needed to enhance alignment with Aveda’s Mission.



For Aveda, it is critical that our business relationship provides appropriate benefits, supports traditional cultures and social relationships, and protects the physical environments that communities inhabit.



BERACA—A MISSION ALIGNED SUPPLIER

Aveda has decades of experience working with traditional and indigenous communities as growers, harvesters, and often direct suppliers of raw materials or processed ingredients. We are very sensitive to the issues that arise as these communities engage in commerce with industrial business partners. For Aveda, it is critical that our business relationship provides appropriate benefits, supports traditional cultures and social relationships, and protects the physical environments that communities inhabit. We support this effort in part through funds raised each April for our Donor Advised Fund within the Global Green-grants Fund (see p. 54), which helps provide financial resources for water related projects that contribute to community development. These projects are often in partnership with Aveda’s sourcing partners such as Beraca, a Brazilian company that supplies us with a number of ingredients including oil from Buriti palms grown by co-ops in a traditional community in Brazil’s northeast.

Beraca (from the Hebrew word for “blessing”) transformed itself from an industrial commodity distributor to a business with sustainability at its core. The company has built a reputation for innovation in ingredients and technologies, developing numerous markets for raw materials that it obtains from traditional

communities partly as an effort to provide community members with a livelihood that allows them to stay in their rural areas rather than moving to cities in search of work. It offers long-term contracts at a fair price, training and financing for equipment that communities use to create added value beyond the seed and fruit they produce, invests in organic certification to bring higher monetary value to final products, and brings communities together with end purchasers to expand opportunities. Aveda considers Beraca to be a key partner in developing new ingredients that fulfill the Aveda Mission.



An Aveda visit to Coopemaflima led to our funding of a seed dryer through the Global Greengrants fund in 2014. The equipment allows the co-op to create high quality andiroba oil that sells for up to seven times the price of the seeds.

SEEDS OF RELIEF

At the mouth of the Amazon River lies Marajó Island, one of the most biodiverse areas in the world and one of the most difficult places for Brazilians to make ends meet. Clear-cutting, which involves felling and removal of all trees in a forest tract, and other unsustainable practices continually threaten their land and with limited income generating opportunities, residents often leave the island to provide for their families. Yet, life in Marajó is beginning to improve with the growth of an industry around andiroba seeds.

When andiroba seeds ripen, they fall into the river where currents may carry them for miles before washing up onto Marajó's shores. Local community members have gathered the seeds for generations, extracting the oil to use on wounds and replenish moisture in their skin and hair. Some sell andiroba on roadside stands, but it is often undervalued and demand is unreliable. Many seeds spoiled on the beach. A local cooperative, Coopemaflima,

formed and developed a partnership with our supplier, which provided a guaranteed minimum purchase volume and price, enhancing incomes for the families of the seed gatherers. To provide for the future and enhance environmental awareness, the co-op donates andiroba seedlings to schools in several Marajó communities and provides guidance on how to nurture their growth into healthy trees.

An Aveda visit to Coopemaflima led to our funding of a seed dryer through the Global Greengrants fund in 2014. The equipment allows the co-op to create high quality andiroba oil that sells for up to seven times the price of the seeds. With greater profits, the co-op could increase employment and expand its donations of seedlings. As Tamires Cruz, president of Coopemaflima, says, "This dryer is going to benefit everyone. There is going to be monthly income, which will help families raise their kids. I think it will help development in the municipality a lot."

CUPUAÇU SEED BUTTER

(Theobroma grandiflorum)

Not long ago, rural farmers in Tomé Açu, Brazil, struggled to support their families—even on the borderlands of the bountiful Amazon jungle—because their land was depleted by decades of clear-cutting and burning for conventional agriculture and cattle ranching, which proved unsustainable for their small family farms. Over time, a group of farmers began to adopt a more sustainable method of farming that restores biological diversity, called agroforestry. They learned that by mixing crops like passion fruit and black pepper, with trees like Brazil nut and cupuaçu, they could increase the yield of each plant, and replenish nutrients to their depleted soils in a more natural way. In 2005, over 20 farmers formed an association to market products that they grow

and, in 2006, farmers increased their income by converting to certified organic farming.

Many of the farmers had previously planted cupuaçu, a native tree, selling the fruit pulp for food and throwing away the seeds—until they discovered the “growing” global value of cupuaçu butter which led farmers to sell the seeds. In 2014, Aveda funded the purchase of a seed dryer through the Global Greengrants Fund to help the association produce their own butter again increasing their earnings and investments in their children's education, housing, and transportation, while reinvesting in additional seedlings and reforestation.

Certified organic cupuaçu butter is in Botanical Kinetics™ Intense Hydrating Creams and Smooth Infusion™ Smoothing Masque.

They learned that by mixing crops like passion fruit and black pepper, with trees like Brazil nut and cupuaçu, they could increase the yield of each plant, and replenish nutrients to their depleted soils in a more natural way.



YAWANAWA

Our 23 year relationship with the Yawanawa people, an indigenous community in the Brazilian state of Acre whose homeland is in the Rio Gregorio tributary of the Amazon River in Brazil, continues to evolve. Aveda chose to work with this community in an effort to support their traditional harvest practices and culture that maintained an intimate knowledge of botanicals. What began as a sourcing relationship for urukum—from which the common food color ingredient, annatto, is derived—has evolved into a pursuit of sustainable development that has helped the community retain its ancestral land, improve members' health, provide educational opportunities to youth, and strengthen Yawanawa culture, language, and spiritual traditions.

Adapting a wild-harvested crop for traditional use to a cultivated raw material for a global market has not been an easy process for either

the Yawanawa or Aveda. Over time, the Yawanawa, who were not historically an agrarian people, became very skilled in growing the crop. But processing, storage, and transportation of the bright red seeds used to make the annatto-based ingredients purchased by Aveda proved to be challenging because of the remote location of the Yawanawa rainforest territory.

Because of periodic quality issues, the urukum supply was interrupted, leaving Aveda to depend on a different supplier. Aveda continued to provide financial support to the tribe, helping to reestablish and strengthen their traditional culture and protect their claims to their territory. We have developed a mutually beneficial relationship over the years where the Yawanawa have become a very important source of inspiration to Aveda—as chief Tashka has said, “we are now a part of each other’s histories. We cannot tell the story of the Yawanawa without including Aveda, and you cannot tell the Aveda story without talking about the Yawanawa.”

Even though compensation for urukum has always been relatively small in comparison with the direct assistance provided by Aveda over the years, the cultivation of urukum and the relationship as trading partners has remained an important source of pride for the Yawanawa people. In FY2013, Aveda asked Beraca to take over processing of the Yawanawa urukum and we began analyzing the key areas of difficulty in storage and transportation. In conjunction with Beraca, we helped the Yawanawa develop new techniques using passive solar energy to better dry the seeds before packaging them for

shipping. Improved communication and coordination has helped transportation become more efficient, resulting in much better quality urukum reaching Beraca. The Yawanawa are now exploring other markets for the urukum and working with Beraca on developing revenue from the sustainable harvest of other rainforest products.

Aveda’s support for this relationship has helped to reestablish and strengthen traditional Yawanawa culture, highlighted by the publication of the first book in their native language and the production of a video—“Yawa”—explaining their culture to the world. Social and economic development projects include urukum plantations in several villages, urukum processing equipment, schools, educational assistance for students to attend college, a health dispensary for treating malaria, drinking water wells provided with Earth Month funds, and improved food security through new farming practices.

We have challenges that remain. The geographic location of the Yawanawa makes it difficult to access potential markets limiting the opportunity for establishing sustainable long-term business operations. Moreover, the supply of urukum from the Yawanawa has varied and sometimes stopped since the leadership split in 2008. Villages that chose to follow Tashka organized a new cooperative called Associação Sócio-cultural Yawanawa (ASY) that is working on improving the consistency of urukum to meet Aveda standards.¹⁰

While Aveda continues to support the development of urukum with ASY, we are compensating the Yawanawa communities for the use of image rights in our brand communications and funding additional community projects. In FY2014, we began exploring mechanisms with the entire Yawanawa people whereby they would receive payments for ecosystem services such as carbon sequestration and watershed and biodiversity

“We are now a part of each other’s histories. We cannot tell the story of the Yawanawa without including Aveda, and you cannot tell the Aveda story without talking about the Yawanawa.”

— CHIEF TASHKA

protection that might result from maintaining protection of their pristine forest. We see this as a compelling opportunity to help the Yawanawa implement an economically and ecologically sustainable development model.

INGREDIENT SOURCING 2016 GOALS

In pursuit of our 2020 vision for ingredient sourcing that supports biodiversity, people, and resource conservation and for engaging Mission aligned suppliers, our 2016 goals include:

- Aveda funding for 12 additional projects that deliver environmental and/or social benefits to our sourcing communities
- Identification of supply chain water related risks for at least 6 key ingredients
- Development of a Community Supplier Agreement defining Aveda’s obligations to small community suppliers of botanical ingredients to enhance the level of predictability of purchases and support if Aveda’s needs for the ingredient change over time

¹⁰ In Spring 2015, Aveda again started receiving Yawanawa urukum for use in products.



Nº 3

Aveda employees produce more than 80% of the units that the company sells. They are on the production lines of our Blaine manufacturing plant and in our distribution centers filling orders. Their efforts create the products that salons and spas and consumers use every day. Supporting these employees are our logistics staff who manage shipping, human resources (HR) staff who are responsible for hiring and retention, facilities management group, and our global education and environment, safety, and health (EHS) teams who deliver employee training. In this section of the report, we provide an update on our Earth and Community Care performance for our Blaine manufacturing, distribution, and logistics¹¹ operations along with key aspects of our corporate activities related to Earth

¹¹ Our Blaine manufacturing operations include storing ingredients and packaging received from vendors, physical processing (mixing, heating, cooling) of ingredients in batches to formulate products and filling operations (for some products, all we do is filling); our distribution center receives products from the manufacturing facility and external vendors manufacturing products for us along with returns from Aveda stores and our customers (salons, spas, etc.) and fulfills orders for Midwest and international customers along with shipping to East and West Coast distribution centers; our logistics team arranges for shipping of incoming and outgoing materials, ingredients, packaging, and products.

and Community Care and implementation of the Aveda Mission. Our activities with the Aveda Network and the communities we serve are discussed in the next section.

The Aveda Blaine campus hosts a shared facility that houses our manufacturing operations and corporate offices and a nearby distribution center serving our global internal and external customers, which include our Network salons/spas, distributors, and Aveda Experience Centers. Within the campus, some of our teams report directly to the Aveda

President, while others have dual reporting lines to Aveda and ELC functions.

Our approach to manufacturing, facilities management, and distribution is to pursue lean operations, making efficient use of all required resources. In FY2014 production increased 8% by volume and 13% per unit of production. Units of production increased at a faster rate due to an increase in the number of smaller size products (e.g., travel sizes) relative to larger size products.

FY2013-2014 ORGANIZATIONAL REPORTING STRUCTURE

AVEDA PRESIDENT	DUAL AVEDA/ELC REPORTING
Creative	Customer Service
Earth and Community Care	Distribution
Global Education	Environment, Safety and Health
Global Marketing	Facilities
Global Retail	Global Brand Supply Chain
Global Sales	Global Communications
	Global Finance
	Global Human Resources
	Global Supplier Resources (Purchasing)
	Manufacturing
	Product Development and Innovation



Our approach to manufacturing, facilities management, and distribution is to pursue lean operations, making efficient use of all required resources.

ENVIRONMENTAL PERFORMANCE

Aveda has pursued reductions in resource use and waste generation since the 1990s. During FY 2013-2014, these efforts focused on operational improvements and energy and water efficiency upgrades for lighting, pumps, windows, electrical equipment, compressors, heating, cooling and ventilation systems, and water purification.

Our facilities team, which sought to incorporate energy efficiency into equipment purchases as budgets allowed, addressed much of what could be accomplished through our maintenance programs. Recognizing that much greater levels of efficiency are required to address our long-term goals on energy and GHG emissions, we have taken several additional steps that should provide a mechanism for identifying new opportunities for significant reductions in resource use. The first was to engage with Schneider Electric for a thorough energy audit of the facility. Recommendations were delivered at the end of fiscal year 2014 and will be addressed in conjunction with the second step, which was to incorporate accountability for addressing resource use with capital expenditure planning for the facility. This provides an explicit

mechanism for integrating sustainability into Aveda's capital as well as operational budget. We also recognize that additional steps are required including better coordination with product development and research on more efficient manufacturing of high performance plant-based formulations.



MANUFACTURING AND DISTRIBUTION ENVIRONMENTAL GOAL PROGRESS

2020 VISION ⁷	2014 GOAL	2014 PROGRESS
Company is net zero on carbon and potentially positive	10% additional reduction; GHG inventory system in place Program to enable payment for ecosystem services such as REDD+ as alternative to offsets developed	—Maintained purchases of off-sets and RECs equivalent to the GHG inventory for Aveda operated U.S. facilities related emissions (scope 1 and 2) —Absolute GHG emissions increased by 9% —GHG emissions inventory for all Aveda facilities —Working with the Yawanawa on launching their payment for ecosystem services project in FY2016 to enable the Yawanawa to protect carbon stocks and other values on their territory in Brazil
Zero waste to landfills for manufacturing, distribution, product returns, and excess inventory	Recycling rate of 90% for manufacturing and 99% for distribution System in place to track product returns	Recycling rates for all wastes ¹² —Manufacturing 67% —Distribution 65% Recycling rates for wastes that are not hazardous or industrial wastes ¹³ —Manufacturing 77% —Distribution 96% Product returns are tracked as part of overall product that cannot be sold or donated
Water from robust water supplies, returning to ecosystems in healthy condition, at least 10% total reduction in use	Downward trend in total water use through new efficiency projects New product innovation targets use reduction “downstream”	Change for the Blaine campus from FY2012 to FY2014: -6% Initiated research on low water use products that deliver professional level performance

WATER AND INDUSTRIAL WASTEWATER

During the FY2012–FY2014 period, we were successful in reducing the absolute and normalized (both production kg and units) use of water and industrial wastewater discharges. Our water consumption and subsequent wastewater discharge is a combination of domestic water use (rest rooms, dining, and other incidental water uses) and manufacturing operations which includes production of purified water and water for product, cooling, and cleaning. We used approximately 75,034 m³ in 2014. Approximately 11,000 m³ of total water was used in products.

In our 2012 report, we discussed replacing a large USP reverse osmosis water system with a more efficient deionized water system that should reduce our water use and wastewater discharges. That replacement process requires that other equipment upgrades be completed and consequently, we are waiting to initiate a capital budget request for a system that is planned for FY2017. Additional water reductions have been achieved through a fully operational clean-in-place system and improvements to water cooling towers. Water efficiency opportunities are being identified and integrated into a five year capital plan developed for facility expansion and manufacturing infrastructure upgrades.

All wastewater discharges go to the sanitary sewer. Of these, approximately half of the total volume of discharges was considered to be industrial wastewater (32,491 cubic meters) by the local regulatory agency.¹⁴ Other major sources of wastewater included brine from our water purification unit and discharges from our cooling system. We continue to seek out new opportunities to reduce water use and, where possible, reuse water before discharge.

ENERGY AND GREENHOUSE GAS EMISSIONS

Between FY2012 and FY2014 our absolute energy use at Blaine rose 17% to approximately 49 million

MJ, while normalized energy use rose at a lower rate (8% per kilogram of production and 4% per unit of production). Looking at the primary forms of energy used at Blaine, our electricity use, which is 100% renewable-based,¹⁵ rose 3% and the use of natural gas jumped 33%.

Energy use is a primary driver for Blaine’s GHG emissions.¹⁶ Our normalized emissions per unit of production remained nearly level (1% increase per kilogram and a 3% decrease per unit), but our absolute emissions rose 9% to about 13.2 million kg CO₂e.

There are multiple causes for the short-term rise in GHG emissions—weather, production increases, formula changes, ingredient changes, processing changes, and minimal capital investment in emission reductions. Overall, we estimate that about 50% of the emission increase was due to weather (colder winters requiring additional natural gas heating). While we have not fully sorted out the specifics of the remaining emission increase, we know that we have to give increased attention to reducing energy use and associated emissions.



¹² All wastes include municipal solid wastes, corrugate that is recycled, other recycle/reused materials, hazardous waste, and industrial waste.

¹³ Recycling rates are calculated using ELC’s methodology which excludes hazardous and industrial wastes (EXOB).

¹⁴ The primary reason for the classification is due to the level of suspended solids in the discharge from the use of mostly plant-based ingredients.

¹⁵ Aveda generates approximately 1% of our electricity use via a solar installation at our Blaine manufacturing facility. We also purchase Green-e certified WindSource® renewable energy certificates (RECs) through our Minnesota utility provider for the grid electricity we use that is equivalent to our GHG emissions associated with electricity consumption. In addition, we purchase renewable energy credits and carbon offsets equivalent to our remaining GHG emissions at our Blaine campus as well as our Los Angeles Distribution Center, North American Experience Centers, sales offices, our two Aveda owned Institutes and the two company owned salons.

¹⁶ These include Scope 1 direct emissions, which are primarily from the use of natural gas and Scope 2 emissions that are due to our electricity use.

We should note that absolute GHG emissions fell between 2008 and 2010 and then leveled off through 2012, before increasing to the 2014 level, which remained below the 2008 level. During this period (which coincided with the recession), production quantities dropped between 2008 and 2009 and rose through 2013 and remained fairly level for 2014. Overall for the 2008 to 2014 period, we successfully reduced our emission intensity (per kg production). Looking more closely at the mix of electricity use and natural gas between 2008 and 2014, we found that changes in electricity use tracked closely with changes in production, while natural gas use was increasing at a faster rate than production over that period. In 2010, natural gas accounted for about 47% of total energy use; by 2014 it was 50%.

Natural gas use strongly correlates with cold winters—the greater the number of heating degree-days, the more natural gas is used for space heating and for heating lower temperature incoming water. As noted above, this was a major factor in the increase in use and the associated GHG emissions for the FY2012-FY2014 period. Electricity use is also correlated with weather, although not as strongly as natural gas use. As the number of cooling degree-days (hot weather) increases, electricity for air conditioning increases, but the increases in electricity consumption are more strongly influenced by production activities.

During the 2008 to 2014 period, there has been substantial growth in higher performance hair formulations across our product lines that require increased mixing times and/or heating and cooling resulting in greater energy use (see Section 2 above). For some products, we phased out of certain preservatives that could be dissolved in cold water and transitioned to new preservatives that require heating and cooling. We also shifted from certain herbal ingredients that were processed in cold water to ingredients that required steeping in warm water, which increased the risk

of bacteria growth. To address the risk, we use a pressure cooker approach (heating the mixture under pressure) to sterilize the herb ingredients. Other new formulas required extended mixing times and heating to emulsify properly.

Individually, extended mixing times (using electricity), heating (using natural gas), cooling (using electricity), and pressure (using electricity) all contribute to higher energy use independent of weather. As noted above, colder winter weather not only means more space heating (using natural gas), it will require additional energy input (using natural gas) for heating water that enters the building colder than in average winter weather.

Thus we face an ongoing dilemma—as we continue to improve our product, we have been increasing our energy use and associated GHG emissions. Aveda strongly believes that these high performance plant-based products offer significant benefits for hair care and our brand equity. To date, both commitments have required energy-intensive manufacturing processes. This conundrum is compounded by the increasing global sensitivity to stresses that human activity is placing on natural systems (see Planetary Boundaries sidebar).

Aveda takes part in ongoing discussions on the current state of natural systems and how governments, businesses, nonprofits, and households might address the stresses related to human society. In FY2014, we joined BICEP, a coalition of businesses advocating for meaningful national legislation on energy and climate that will enable a low carbon future. Aveda's Blaine facility will support ELC's GHG emissions reduction strategy which recognizes that to "avoid 2 degrees of warming, the global economy now needs to decarbonize at 6.2 percent a year, more."

PLANETARY BOUNDARIES

Beginning in the earliest days of Aveda, our founder, Horst Rechelbacher was concerned with the need to preserve biodiversity both for the sake of the planet and for our company's success. It is at the center of our interest in operating in a manner that respects the Earth. To do that, we are following the growing discussion about staying within rigorously defined planetary boundaries necessary to maintain the health of ecosystems and an appropriate quality of life.

Researchers have established quantitative boundaries for six critical aspects of the planet's environment that have been modified by human activities—climate change, stratospheric ozone depletion, ocean acidification, biogeochemical flows (nitrogen and phosphorus), freshwater use, and land-system change—and continue to work on three other critical human influenced planetary boundaries—biosphere integrity (extinctions and intactness of ecosystems), atmospheric aerosol loading, and the introduction of novel entities.

For quantitatively defined boundaries, researchers have specified thresholds or tipping points where the planet would be inhospitable to human societies. The boundaries are set upstream from the thresholds such that they serve as an early warning notice of the need for change. Staying within the boundaries defines a "safe operating space" for human activities and the ability to avoid

significant disruptions to the planet's functional systems. For some of the issues—biogeochemical flows and aspects of biosphere integrity—boundaries have been exceeded. For others—climate change and land-system change—we are facing the risk of exceeding the boundary if we continue our current path. For the remainder, we either currently operate safely within a boundary or we do not have adequate data yet to define a boundary.

We are following the growing discussion about staying within rigorously defined planetary boundaries necessary to maintain the health of ecosystems and an appropriate quality of life.

FY2012-FY2014 PERCENTAGE CHANGE BLAINE MANUFACTURING

ENVIRONMENTAL INDICATOR	ABSOLUTE	UNITS	KG
Energy	16.6%	3.5%	7.9%
GHG Emissions (without RECs and offsets)	8.9%	-3.3%	0.7%
Water	-5.9%	-12.9%	-16.4%
Industrial Wastewater	-5.7%	-12.8%	-16.3%

INCREASING SHIPPING EFFICIENCY

Dave Nordine oversees Aveda's global logistics & transportation. He is responsible for the transport of inbound raw materials, and components to Blaine, and outbound finished goods to Aveda distribution centers, experience centers, distributors and salons in the most cost efficient, low impact manner as possible, while maintaining delivery schedules as safely and securely as possible. Many of the highest quality raw material ingredients are available domestically, but a number of them are only available from international sources, some of which require complex logistics to get from the source (e.g., the upper Amazonian region) to Minnesota. Aveda products in turn are shipped all over the U.S. and to 23 countries¹⁷. Shipping requires energy and generates greenhouse gas emissions, which are tracked for inbound and outbound shipments.

Over the years, Dave has developed a number of strategies to optimize the multiple demands of his role. Where possible, Dave has worked with purchasing planners and packaging to arrange for domestic vendors to ship bulk ingredients and essential oils, and packaging in reusable containers that are returned to vendors. We occasionally reuse some essential oil containers to ship the same ingredient to a vendor that is filling a product for us. Similarly, corrugated boxes and trays are reused as many times as possible.

Distribution center staff continue to try different types of dunnage, and packaging used to protect certain products, in an effort to reduce weight, maximize product volume in shipments, and decrease greenhouse gas emissions while avoiding product damage. The balance among these goals is not easily achieved; tests of new packaging occasionally unsuccessful when test shipments arrive at a packaging testing lab.

Shipping containers and truck trailers are filled to maximize the use of space and weight limits. Shipping companies are asked to join the EPA SmartWay program and Aveda uses their SmartWay scores to help choose carriers that minimize their environmental impact. While boat is typically used for transoceanic shipping, ocean shipments also involve trucking and rail to and from ports. A pilot test of using rail for outgoing shipments from the Aveda Midwest Distribution Center to other distribution centers is planned for FY2015. Rail typically takes longer than truck shipments, but may save as much as 30,000 metric tons of CO₂ for Aveda annually. Air freight is used when production delays require quick deliveries; the high financial cost and GHG emissions relative to other shipping modes makes air freight a last resort strategy. Software that estimates GHG emissions for shipments provides the basis for pursuing potential alternatives to further reduce our impacts.

¹⁷ Aveda products are sold in over 30 countries.

SOLID AND HAZARDOUS WASTE

Where we generate waste, we seek to maximize reuse and recycling. Similarly, we use a relatively small amount of hazardous materials in our operations and consequently are typically a small quantity generator of hazardous waste. We do our best to maximize production that meets our quality standards, but occasionally we have a problem that results in product that cannot be used and must be managed as industrial waste. For our Blaine facilities (manufacturing, office, Experience Center, and distribution), municipal solid waste (general trash), hazardous waste, and industrial waste indicators are trending favorably for the FY2012-2014 period. As noted above the total recycled (including reused) waste continues its upward trend, but normalized indicators show a decline.

Throughout the Blaine campus, Aveda has sought to minimize sending waste to disposal (Aveda chooses to use disposal facilities that incinerate waste for energy recovery), typically achieving high levels of nonhazardous and nonindustrial waste diversion (76% in manufacturing, 96% in the Distribution Center for FY2014) that set a high bar for ELC facilities. The FY2012-2014 trend for the volume (kilograms) of municipal, hazardous, and industrial waste (the last benefitting from a special focus on reducing products that cannot be sold, test batches, and products that are returned from customers), was positive, with decreases of 12%, 18%, and 11% respectively. The amount of corrugate recycled decreased by 8% during the same period, reflecting a reduction in corrugate coming into the facility. Part of this is due to shifting production of holiday gift sets in FY2014 out of Aveda to an external vendor. It also reflects a source reduction effort resulting in the use of reusable bulk totes for shipment rather than corrugated master cartons for the finished gift sets. Recycling and reuse of non-corrugate recycled

and reused materials (paper, batteries, metals, plastics, pallets, etc.) increased by 32%.

While recognizing the benefits of recycling and reuse, we are cognizant of an ongoing need to prevent waste in the first place. In FY2014, we renewed our efforts with Zero Waste teams charged with eliminating waste at the source (e.g., swapping master cartons for reusable totes). New challenges are always arising. For example, a bottle supplier began shipping their product with internal foam packaging that thwarted all attempts to recycle or reuse without baling. Discussions with the supplier about using an easier to recycle packaging material weren't productive and we are currently pursuing purchase of a specialized baler that will enable us to easily recycle the packaging. Composting of food waste and napkins from our Organica café and paper towels used in campus bathrooms nearly doubled in FY2014 from FY2012. As we set goals for the future, we will look to maximize recycling rates, while reducing the total amount of material recycled by implementing source reduction strategies.



While recognizing the benefits of recycling and reuse, we are cognizant of an ongoing need to prevent waste in the first place.

FY2012-FY2014 PERCENTAGE CHANGE BLAINE MANUFACTURING

WASTE TYPE	ABSOLUTE	INTENSITY PER UNIT	INTENSITY PER KG
Municipal Waste	-12.1%	-21.9%	-18.6%
Hazardous Waste	-18.1%	-27.3%	-24.2%
Industrial Waste	-11.1%	-21.1%	-17.8%
Total Recycled	1.7%	-9.7%	-5.9%

Rather than simply accept these challenges as the natural outgrowth of business success, Aveda embraces them as further opportunities to apply the underlying principles of the Aveda Mission and more aggressively pursue our belief that business and ecological goals are jointly achievable.



MAKING & DELIVERING PRODUCT 2016 GOALS

While we have made significant improvements in managing the environmental footprint of our manufacturing and distribution operations, key challenges continue—ranging from intensively managing a growing carbon footprint from manufacturing and related operations to the need for aggressive improvement in addressing waste at the source. These are compounded by the increasing complexity of Aveda products

and overall business growth that results from the continuing consumer acceptance of Aveda products and the principles embedded in their production. Rather than simply accept these challenges as the natural outgrowth of business success, Aveda embraces them as further opportunities to apply the underlying principles of the Aveda Mission and more aggressively pursue our belief that business and ecological goals are jointly achievable.

2014 GOAL	2016 GOAL	2020 VISION
10% additional reduction; GHG inventory system in place Program to enable payment for ecosystem services such as REDD+ as alternative to offsets developed	14% reduction in GHG emissions per kg production	Company is net zero on carbon and potentially positive
Recycling rate of 90% for manufacturing and 99% for distribution System in place to track product returns	80% recycling rate for manufacturing 99% recycling rate for at Midwest Distribution Center	Company is zero waste to landfills for manufacturing and distribution and for product returns and excess inventory
Downward trend in total water use through new efficiency projects New product innovation targets use reduction “downstream”	On hold until capital budgeting process completed	Water from robust water supplies; returning to ecosystems in healthy condition, at least 10% total reduction in use

MAKING THE PRODUCT LIFE CYCLE WORK: AVEDA EMPLOYEES & STAKEHOLDERS

As in product development and ingredient sourcing, our stakeholders are a critical aspect of this phase of the Aveda product life-cycle. In this section, we provide information on our key internal stakeholders, our employees, and our efforts to engage them fully in the Aveda Mission so that they enthusiastically support us in achieving the company vision.

AVEDA EMPLOYEES

In FY2013-14, Aveda had approximately 3,050 employees around the globe (2,450 in the U.S. and 600 at international locations). At our Blaine campus where most of our non-sales employees are located, we are a predominately female-staffed

organization (63%) and about two thirds of our senior executives, managers, and professionals are women. About one third of our manufacturing and distribution employees are female. Our minority population in Blaine—15% of the staff—reflects the general demographics of the Twin Cities. The majority of our U.S. staff is in our retail Experience Centers, and also includes employees who provide training and sales support to the Aveda Network and to our own sales staff. About 80% of our total U.S. workforce is female and about 31% of the total are temporary or on-call employees. At Blaine, approximately 17% were temporary or on-call employees during 2014.

AVEDA BLAINE CAMPUS (JUNE 2014)

JOB CATEGORY	TOTAL	% FEMALE	% MALE	% WHITE	% MINORITY ¹⁸
First/Mid Level Officials + Managers	221	64%	36%	96%	4%
Professionals	99	68%	32%	92%	8%
Technicians	25	72%	28%	92%	8%
Sales workers	3	100%	0%	100%	0%
Administrative Support Workers	100	100%	0%	97%	3%
Craft Workers	13	0%	100%	100%	0%
Operatives	170	34%	66%	64%	36%
Laborers and Helpers	38	79%	21%	58%	42%
Service Workers	21	76%	24%	67%	33%
Total Blaine Employees	690	63%	37%	85%	15%

¹⁸ According to EEOC guidelines, minority is used to mean four particular groups who share a race, color or national origin: American Indian or Alaskan Native, Asian or Pacific Islander, Black (except Hispanic), and Hispanic.

Aveda's HR function is transitioning to a fully ELC-based service by the end of 2015. While some functions may be delivered via ELC's New York operations, Aveda specific HR activities are expected to continue to be based in Blaine. For example, Aveda expects employees to integrate the Mission in their daily job activities and includes this requirement in all posted job descriptions. We also encourage employees to incorporate environmental and social responsibility in their personal lives. HR has a significant role in maintaining this core cultural aspect of Aveda through talent acquisition, training, and employee relations. For example, living up to the Mission is the first Business Development Goal listed in every Personal Development Plan.

As an ELC Center of Excellence for inclusion and diversity, Aveda is the first ELC brand to pursue its own inclusion and diversity strategy, which was approved in January 2014. The first part of a three year plan was implemented in FY 2014. The strategy focuses on underrepresented groups including Black, LBGTQA, Asian, Hispanic, and males in the beauty industry. Through internal education, we encourage talent acquisition from these groups, particularly for our R&D, marketing, and public-facing activities, and foster the development and support of ELC employee resource groups that serve them through events, education and other activities.

In turn, members of these groups reach out into the broader community in an effort to make Aveda an employer of choice in the communities

that we serve. We see multiple benefits to our business in terms of enlarging the pool of talent and in designing and marketing products for an increasingly diverse population.

Our interest in retaining talent has led to a formal succession planning program for managers and more senior employees. Every position at these levels has a succession plan. In conjunction with the plan, Aveda's senior leaders identify key staff who have high potential for these leadership roles. Each of these individuals receives regular evaluations, coaching, and a personal development plan to acknowledge that they are valued and to help them grow in their jobs and progress in the company. Aveda also has programs for its field staff and Experience Center employees to enhance their connection to Aveda and our Mission.

Additional information about Aveda employees is available in the Web Only Appendix of this report.

¹⁹ Complete data for employees outside of Blaine were not available for FY2014; with the implementation of Aveda Mission Leader (see discussion below), better data for North American employees should be available for the next report.

²⁰ A Gemba walk is a critical tool for company leaders, managers and supervisors to understand, motivate, and act on key issues as part of a lean manufacturing program that incorporates continuous improvement. It typically involves identifying a focus issue or two and starting at the end process of a facility and walking "upstream" asking questions, listening, talking, and seeing what is happening around the chosen issue and then following up.



Employee health is a priority for Aveda's President, who regularly walks through the Blaine facilities to talk with employees about safety.

PROTECTING EMPLOYEE SAFETY & HEALTH

Our efforts to improve workplace safety and health have not produced the results we have sought. While there is a decade and a half long trend towards reduced rates of recordable safety and health incidents, rates have been rising gradually since 2007. Most recently, there were 29 incidents for FY2011-2012 and the same number in FY2013-2014; year to year rates dropped 17% between 2012 and 2013, then rose 34% in 2014. The primary drivers of the incident rate are slips/trips/falls and ergonomics. As part of ELC's approach to workplace safety and health, we instituted a Behavior Based Safety program in the mid 2000's, which we have used to identify

safer practices and reinforce behavior change. We are not satisfied with our performance and it is a priority for Aveda's President, who regularly walks through the Blaine facilities to talk with employees about safety. We are looking to innovative approaches, capital investment, and benchmarking against the very best peers as routes to better performance.

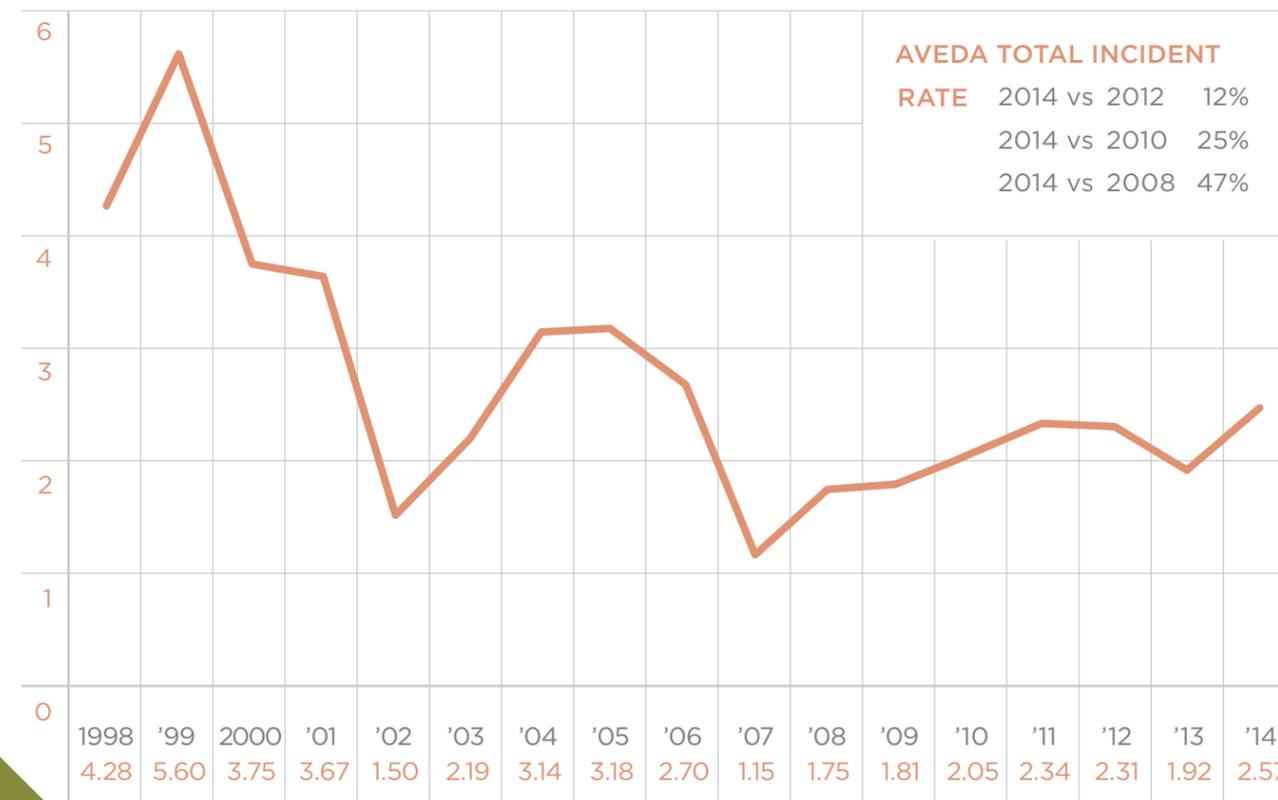
Manufacturing management and supervisors have instituted regular Gemba walks²⁰ to identify and correct behaviors and risks. They complete a report of their walks which are tracked to ensure all actively participate with the objective to improve work place safety. BBS (Behavior Based Safety) teams are established for each manufacturing and distribution shift. These are staff members who work on the floor and also work on projects and BBS observation tracking to help improve safety.

GOALS

2020 VISION	2014 GOAL	2014 PROGRESS
100% of Aveda employees go home uninjured: TIR = 0	Total Incidence Rate (TIR) = 1.43	TIR = 2.57
100% employee volunteerism	25% employee participation North America.	35% of Blaine employees ¹⁹

TOTAL OSHA RECORDABLE CASES

*Total Incident Rate calculated as per 100 workers, per calendar year, for the Corporate/Manufacturing/R&D employees in Blaine facility. page 63 of the 2011-12 report.





EMPLOYEE & NETWORK MISSION ENGAGEMENT

To enhance engagement in the Mission and increase the potential for Aveda to fully realize its vision, we have implemented Aveda Mission Leader,²¹ an online sustainability engagement platform available for Aveda employees, a growing number of Aveda Institute employees and students, and potentially employees of Aveda Network salons and spas that invest in the platform. This tool features multiple projects designed to inspire and motivate the Aveda community to take action both in their professional and personal lives and to deepen their commitment to the Aveda Mission through gamification and social normalization. Participants pick “Projects” to pursue at their own pace. The projects are diverse, including topics such as Zero Waste, Health and Wellness, Home Water Savers, Green Salon Certification, Daily Green Routine, Mindful Eating, and more. Within each project, there are specific learnings that the participant pursues that explain the project’s purpose, what can be done, and how they can accomplish the project to accumulate points. Participants are responsible for updating project progress through completion, which provides the data for monitoring and tracking overall participation and activities.²¹

Through Aveda Mission Leader, we offer opportunities for community volunteer activities. Participants can join Aveda-organized events (Activism for the Earth) or pursue their own volunteer opportunities and track their participation. Users earn points for each action completed,

achievement badges as they advance through the levels, and special incentives are offered on a regular basis to promote participation. In addition to Aveda Mission Leader, we rekindled a weekly lunchtime learning opportunity at Blaine headquarters featuring a variety of films, guest speakers and TED Talks in response to interests expressed by employees. In FY2014, Aveda employees gave approximately 1,830 hours of time to Activism for the Earth volunteer activities plus an additional 760 hours of volunteer time.

Integrated into the Aveda campus 58 acre National Wildlife Federation certified wildlife habitat are two programs that began in FY2013 and FY2014—the Aveda Honey Bee Project and an employee organic garden. The Honey Bee Project is part of a larger Aveda effort to raise awareness about the need to protect pollinators and their habitats. Pollination is core to our business as a plant-based products company and is critical to enhancing global bio-diversity while supporting a variety of economic interests ranging from agriculture to pharmaceuticals to energy.

²¹We will report on participation in the next Earth and Community Care Report as there was limited implementation in FY2014.

“I have volunteered at Project Homeless Connect for a few years now. A gentleman whom I had met at a previous event walked right up to me and said, ‘I told you that last haircut was going to get me a job, and it did,’”

WENDY ROSE,
Aveda Volunteer

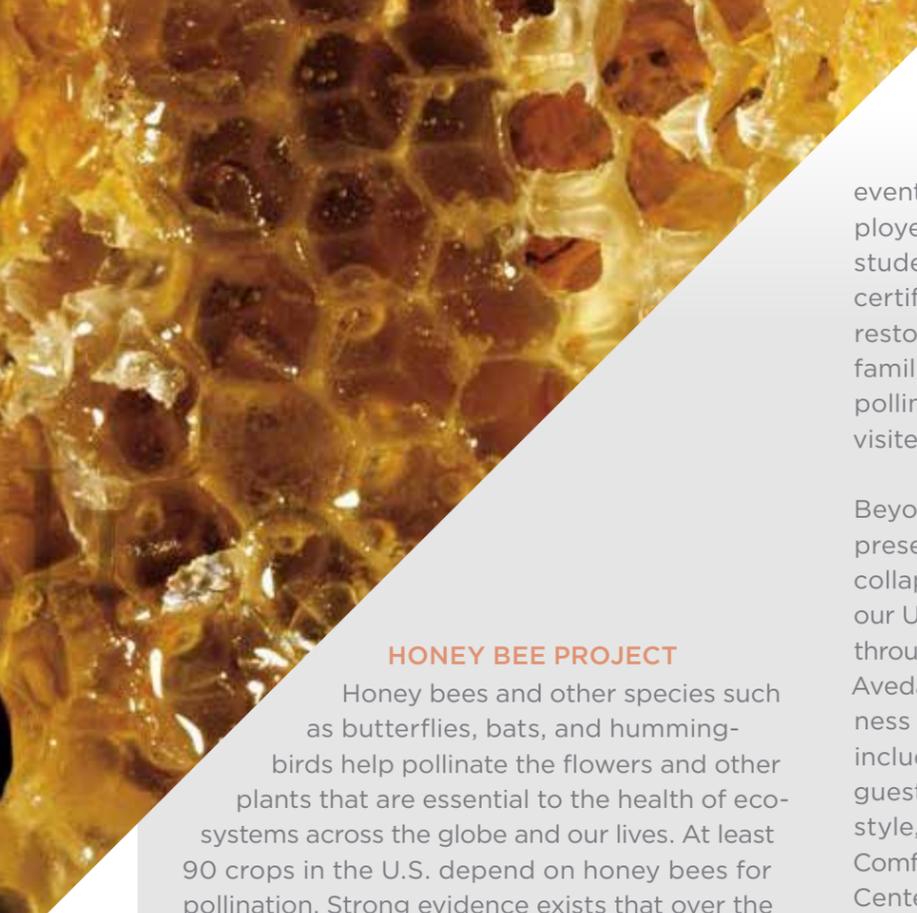


HAIRCUTS AT PROJECT HOMELESS CONNECT

Since December 2010, the Aveda Global Team has offered haircuts for the homeless in conjunction with Project Homeless Connect, a non-profit organization dedicated to ending homelessness, “one person at a time.” Twice a year, PHC turns the Minneapolis Convention Center into a one-stop-shop of services for the homeless by partnering with local service providers, businesses, citizens and faith communities to bring housing, employment, medical care, benefits, legal assistance, haircuts, and more to help people improve their lives. In 2013, Aveda recruited more than 50 stylists and barbers from the Minneapolis metropolitan area who provided 630 haircuts and make-up, and 26 Aveda Institute massage students gave 240 chair massages while the participants waited for their turn in the styling chair.

“I have volunteered at Project Homeless Connect for a few years now. A gentleman whom I had met at a previous event walked right up to me and said, ‘I told you that last haircut was going to get me a job, and it did,’” said Wendy Rose, Aveda Volunteer.

The Aveda Global Education team received The Estée Lauder Companies Leonard A. Lauder Team of the Year Award in 2013 as a result of their work with this cause and Project Homeless Connect received a \$2,500 donation from The Estée Lauder Companies.



HONEY BEE PROJECT

Honey bees and other species such as butterflies, bats, and hummingbirds help pollinate the flowers and other plants that are essential to the health of ecosystems across the globe and our lives. At least 90 crops in the U.S. depend on honey bees for pollination. Strong evidence exists that over the last several decades, honey bees have declined dramatically with commercial managed colonies falling by nearly 60% since 1947.²² Threats to bees include disease, predators, loss of habitat and food sources, pesticides, and climate change. In response, efforts are being made to protect and restore bee friendly existing habitat and providing new habitat while eliminating the use of certain pesticides that are especially harmful to honey bees.

Working in partnership with Dr. Marla Spivak, a professor of entomology at the University of Minnesota who is a world authority on colony collapse disorder, and the University of Minnesota's Bee Squad coordinator, Becky Masterman, Aveda established a bee colony on the campus in the summer of 2013 using holistic beekeeping principles in an effort to help develop solutions to promote healthy honey bee colonies with a second added in 2014. Hosting the bee colonies is an opportunity to educate employees, their families, and the community. Presentations at

events, bee films, and colony tours for employees, Aveda Institute students, and K-12 students are an opportunity to talk about the certified wildlife habitat on campus, Aveda's restoration efforts, and how employees, their families, students and the public can protect pollinators. Approximately 400 people have visited the colonies since they came to Aveda.

Beyond the campus, Aveda has conducted presentations and film showings about colony collapse disorder and threats to pollinators at our U.S. Experience Centers, engaged employees through a video message from Dominique Conseil, Aveda's President about pollinators, held awareness building events at Experience Centers including one in which EC Advisors offered guests the opportunity to get a "bee hive" hair style, conducted honey tastings with Aveda Comforting Tea, and raised funds from Experience Center guests to provide \$52,185 to the Xerces Society for pollinator habitat restoration. At one our Experience Centers, an employee (need to identify) created a protecting the pollinator app for guests. In FY2015, these efforts will expand to include global Experience Center stores.

Our organic employee garden was established in FY2013 in an old garden space outside the Aveda President's office providing 20 plots for employees to plant vegetables, fruits, and flowers. Demand for plots quickly exceeded the availability for employees who do not have access at home to a garden space and those who want a second garden. The garden is operated in a manner that promotes bee habitats on campus. The popularity of the garden has led us to look at expansion in FY2015 and beyond.



Our organic employee garden was established in FY2013 in an old garden space outside the Aveda President's office providing 20 plots for employees to plant vegetables, fruits, and flowers.

2016 GOALS

We have much more progress to achieve in protecting employee safety and health at work. Our challenge is to bring significant resources and attention to identifying the causes and changing the conditions to eliminate incidences of injuries. We continue to build a culture of volunteerism within Aveda in recognition that it helps develop a stronger sense of purpose in line with the Aveda Mission and stronger bonds to the communities that we serve.

In pursuit of our 2020 vision for Aveda Employees and Stakeholders that every employee goes home uninjured and volunteers in the community activity of their choice, our 2016 goals include:

- A total incidence rate no greater than 1.45²⁴
- At least 50% participation of all North American employees in volunteer activities



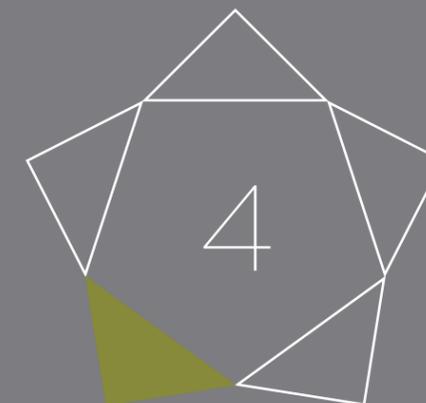
²² J. Pettis and D. vanEngelsdorp, "Current State of Knowledge of CCD and its Relation to Honey Bee Health, USDA Report on the National Stakeholders Conference on Honey Bee Health, National Honey Bee Health Stakeholder Conference Steering Committee, 2012. Commercial honey bee colonies declined from an estimated 6 million in 1947 to 2.5 million at the time of the report.

²³ Information from Xerces Society, the White House, and the U.S. Fish & Wildlife Service.

²⁴ Goal is for FY2015 and will be updated when the FY 2016 goal is set.

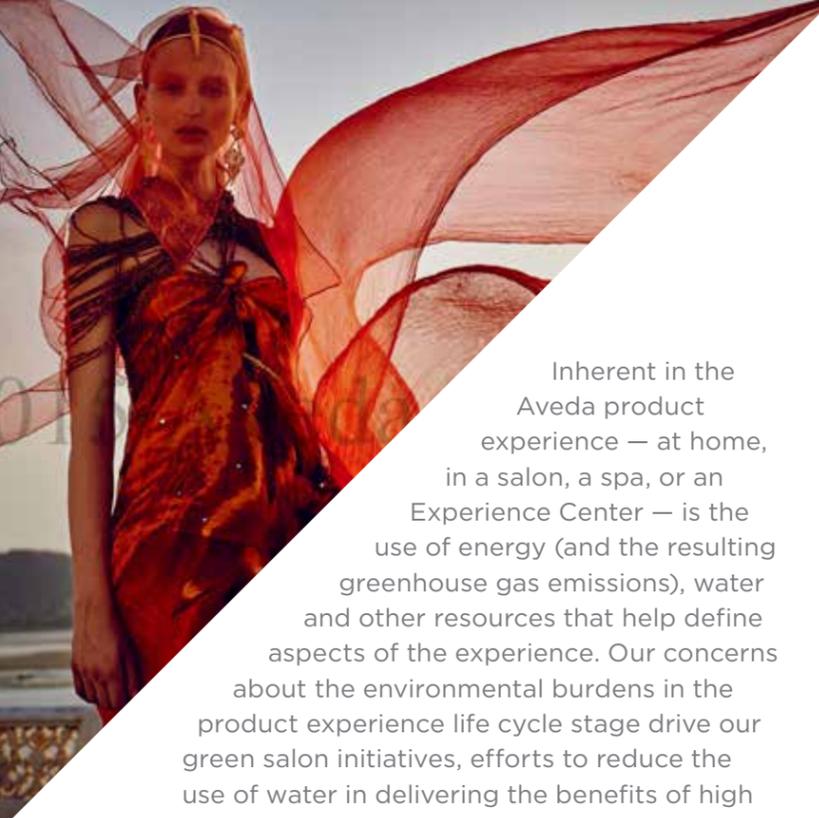


Nº 4



Aveda products and the professionals in the Aveda Network salons, spas, Institutes, and retail stores offer our guests an opportunity to engage in purposeful caring for the mind and body. Whether at home or at a salon or in an Aveda Experience Center, Aveda's plant-based hair, skin, and beauty products deliver superb results in conjunction with a multi-sensory wellness experience. This holistic approach to products is extended to the rituals you receive when visiting an Aveda Network location. For example at an Aveda Experience Center you can enjoy a free cup of Aveda Comforting Tea, a stress-relieving scalp, neck and shoulder, or hand massage, or an application of a Pure-Fume™ aroma among many additional rituals available. It is an expression of the Aveda belief that looking beautiful rests on a foundation of feeling well and being stress free.

veda corporate



Inherent in the Aveda product experience — at home, in a salon, a spa, or an Experience Center — is the use of energy (and the resulting greenhouse gas emissions), water and other resources that help define aspects of the experience. Our concerns about the environmental burdens in the product experience life cycle stage drive our green salon initiatives, efforts to reduce the use of water in delivering the benefits of high performance products, green guidelines for our stores and facilities, supporting clean water in Earth Month, and endeavors to educate guests about wellness and sustainability in living (see additional information in the [2011-2012 ECC Report](#)).

Complementing the product experience are our efforts to engage with guests, Aveda staff, and the many beauty professionals in the Network around the Aveda Mission to act responsibly in caring for the environment and giving back to the communities we touch. It is through the Aveda Network that our customers and guests typically experience our products, be it at one of the 9,152 salons and spas that use and sell Aveda

products, at an Aveda-owned or independent Institute, Salon, Spa or Experience Center, or selected department and specialty stores. At each encounter, Aveda takes the opportunity to encourage responsible actions at home and in daily life, volunteering in the community, and supporting a variety of causes.

Through our Aveda Mission Leader program, we began a pilot program to encourage our Network to take action to green their salons and spas through activities such as the purchase of green energy, implementing water efficiency measures, and using recycled materials in their build outs (see p. 56). For the industry and general public, we showcase the creativity of our Network partners combined with environmental and social responsibility through events such as Catwalks for Water, illustrating inventiveness and technical skills in hair and makeup on models who walk the runway wearing “trashion” to raise funds for clean water.

Our central focus in the product experience stage of the Aveda product life cycle is to deepen our engagement with the people and communities that Aveda products touch, be it stylists and estheticians, massage therapists, salon and spa owners, guests, nonprofits, community residents, or interested citizens. We seek out opportunities to build awareness of environmental sustainability and wellness and believe that our own philanthropy must

CATWALKS FOR WATER: TRASHION SHOWS

In 2013, Aveda sponsored 21 shows in North America and two in Asia, asking Aveda Network salons and institutes to compete in the creation of dresses made from used hair color tubes, holiday packaging, trash bags, and all kinds of other discarded items. The events are fundraisers with proceeds going to local Aveda Earth Month Nonprofit Partners and an opportunity to raise awareness of what can be done to reuse materials and products rather than simply throw things away. The Aveda Global Education Team has even created a manual for others in the Aveda Network on how to stage a show. Aveda received a standing ovation at the 2013 North American Styling Awards show for a Catwalks for Water presentation featuring models wearing dresses made from trash and other environmentally friendly/recycled materials along with eco-friendly hair accessories.

not only do good, but encourage our stakeholders to participate more deeply in causes in which we share an interest.

EARTH MONTH AVEDA'S GIVING — OUR GLOBAL CAMPAIGN TO RAISE FUNDS FOR THE EARTH

Our Earth Month campaign each April remains Aveda's largest initiative to engage guests in the brand's Mission. Through Earth Month, we encourage our employees and Network members to develop a deeper understanding of and engagement in local water-related issues. Through the Aveda Network of salons, spas, Experience Centers, and Institutes, our joint efforts help to raise money for nearly 50 non-profit Earth Month Partners working to address a wide range of water issues at the local level.

The Aveda Network hosts a large number and variety of fundraising events and engages in volunteer activities with their local Earth Month Partners as a way to support a Mission-related cause. Earth Month is also an opportunity to engage our guests globally. Network locations and individual professionals provide services in exchange for guest donations to Earth Month partners through Appointments for Clean Water or participate in the Global Cut-a-thon, which is a one day event when stylists cut hair to raise funds in support of their local Earth Month partner charities.

In FY 2014, Aveda and our Network partners raised \$6 million during Earth Month of which over \$4 million was raised through Network volunteer fundraising activities. This success reflects the degree to which members of our Network are proud to be associated with Aveda and are committed to being engaged and to fundraising for environmental causes. They share their commitment to the Aveda Mission and their recognition of the global need for clean water both in their business space and increasingly online and in social media.

AVEDA-OWNED	US	INTERNATIONAL
Experience Centers	107	17
Lifestyle Salons and Spas	2	4
Institutes	2	
Travel Retail		13

In addition to the local fundraising done within our Network, Aveda made a direct donation of nearly \$1.7 million by channeling 100% of the proceeds from the sale of Light the Way™ candles (based on the suggested retail price) to our global partner, Global Greengrants Fund, for water-related projects in communities around the world with an emphasis on communities where Aveda sources its ingredients. During FY 2013 and FY2014, Global Greengrants used the proceeds of candle sales for several grants to locally based NGOs working to increase access to clean drinking water in communities that supply plant materials for

our products including projects in Nepal, Madagascar, Brazil, and India.

In Umbari in the state of Maharashtra, India, where farmers grow turmeric for our Invati products, Aveda has supported Global Greengrants Fund projects that brought drinking water to two nearby villages. In FY2013, a new Global Greengrants Fund project supported by Aveda is expanding vegetable gardens to help address nutritional deficiencies in the villages. The gardens are irrigated with kitchen-generated gray water that became available as a result of the original drinking water supply project. There are now over 60 kitchen gardens and two gardens at local schools. Villagers who grow surplus food beyond what they need give it to family and friends or use it for building seed banks. Earth Month funds have also gone to H2O for Life, which works with schools in U.S. to inspire youth to learn about water issues and raise money for partner schools in developing countries that lack clean water to provide their students with water, sanitation, and hygiene (WASH) education.

Our challenge is to increase Earth Month participation throughout our Network and identify new creative ways to engage and support those locations already participating so that they can help us achieve even greater fundraising results in the future. We will work to share best practices for success

throughout our Network, expand and facilitate stronger relationships between our Earth Month partners and participating Network locations, and continue raising awareness about the importance of protecting our water resources, especially as it relates to other critical issues like climate change, habitat protection, and toxins in our environment.

ADDITIONAL AVEDA GIVING

Aveda engages with our stakeholders through The Estée Lauder Companies' annual Breast Cancer Awareness Campaign with a donation to the Breast Cancer Research Foundation (BCRF). A portion of the proceeds from our Limited Edition Pink Ribbon Hand Relief is donated to BCRF, which, for the last several years, has supported a team of researchers at Columbia University studying environmental factors that affect breast cancer risk without the use of animals.

In 2013, Aveda provided \$200,000 for Hurricane Sandy Relief programs through Save the Children, City Harvest, and other partners to address short-term needs and longer term efforts to make the affected communities more resilient in a future with more frequent and severe weather events due to climate change.

The Serve from the Heart Store Grant program is designed to help Aveda Experience Center employee teams build partnerships with local nonprofit organizations and further strengthen connections with stakeholders in their communities.

Through Serve from the Heart, Aveda allocated approximately \$50,000 in FY2014 corporate giving funds for stores to use as donations to nonprofit organizations working at the local level. Grants made through Serve from the Heart are focused on causes related to Aveda's mission of environmental leadership and responsibility. Projects supported through the program range from local river cleanups to wildlife rehabilitation to environmental education.

We also periodically donate products to nonprofit organizations for fundraising that benefits environmental sustainability and other Mission-related causes. Aveda also donates all usable obsolete and excess inventory to a partner that distributes the products to clients in need (e.g., shelters for families in transition).

EDUCATING THE AVEDA TEAM AND OUR NETWORK PARTNERS IN THE MISSION

Furthering engagement of the Network and our own staff with the Aveda Mission is part of our Global Education Team's charge. The Team provides technical, business, and Mission-related education for Aveda retail advisors, Experience Center staff and Nordstrom associates, Network salons and spas around the globe, and sales development staff and the Aveda Business College which delivers programs that help salons be successful and professional businesses.

All Global Education programs include activities designed to excite and motivate participants around the Aveda Mission to care for the world and strive for environmental leadership. The Global Education Team also seeks global consistency at all levels of the company and the Aveda Network regarding knowledge of products and ingredients and how Aveda presents itself. To this end, the Team has developed environmental standards to assure alignment with the Aveda Mission for events such as the North American Styling Awards, and the biennial Aveda Congress, which brings together (cont'd p. 56)

TRIOS AVEDA SALON AND SPA, Fort Collins, CO

“As some of you may know, April is earth month! And here at [Trios] Aveda that is a big deal. We dedicate the month of April to raising money for Clean Water. So this month we are participating in Aveda's Cut-A-Thon. All of the money we raise this year will go towards Western Resource Advocates, a local water conservancy organization that focuses their efforts in the Rocky Mountain region. Water is very important here in Colorado and it is disappearing. The facts are staggering but we can help. By making an appointment on April 7th for a haircut, you can make a major impact.”



GREEN SALONS

We provide a variety of resources to support our Network salons and spas in living Aveda's mission of environmental leadership and responsibility including: a virtual salon tour with detailed information on designing and operating a salon aligned with the Aveda Mission, green building guidelines, owning and operating an eco-healthy salon/spa, how to hold green meetings and events, participating in Aveda's Full Circle recycling program, purchasing green energy, and much more. Our Network facing Aveda Mission Leader engagement platform launching in FY16 will expand upon these resources providing an interactive way for our network to deepen their relationship with our Mission, and be recognized for their green achievements.

beauty professionals for two days of inspiration and learning at the intersection of hair styling and fashion, including workshops, technical demonstrations, and dazzling performances and runway shows.

IMPROVING THE EXPERIENCE

The Aveda interior store design team within our Creative Department has initiated green guidelines and recommendations in design and fixtures that complement the green building practices for new store construction and existing store upgrades that we have been using for about a decade. Resources include:

- Building documents that we provide to our external partners for a new build or a renovation of an Experience Center. These outline our Environmental mission, goals, and considerations when executing any approvals, orders, or work to complete a project.
- Requests for Proposals include questions for potential vendors asking about their environmental standards in production, sourcing, and/or shipping, which we use in making project specific decisions regarding vendors, materials, fixtures, and/or services.
- Criteria that outline Aveda's material use policies and specify how we decide on materials for building construction, fixtures, and finishes that help us reduce our environmental impact.

In FY2014, we saw a 72% participation rate for the 1,530 plus U.S. Aveda Concept Salons²⁵ in Earth Month. This fell short of our expectation that 90% or more would be involved in fundraising and may reflect a need for better communication about how local nonprofits may benefit from funds raised during Earth Month. In contrast, nearly all (97%) U.S. Aveda Lifestyle Salons and Spas (about 320), which offer guests a more in-depth Aveda experience, participated in Earth Month. Globally, we have attempted to track participation through our regional offices with mixed results, due to a lack of consistency among the regions. We will continue to seek a better tracking method that works across Asia and Europe.

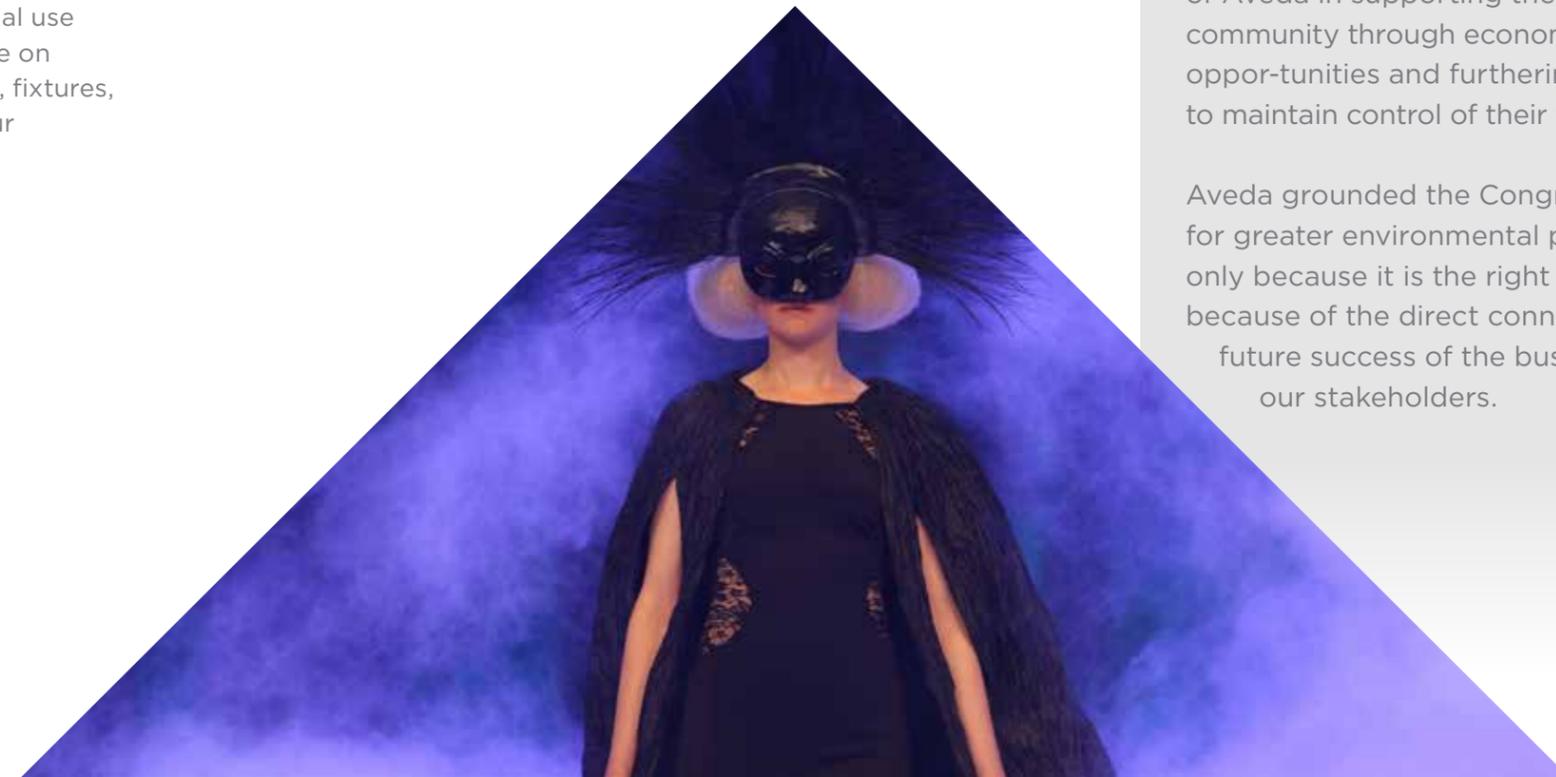
We had high expectations for our Green Salon Project, which offered practical guides to salons on reducing energy and water use and using environmentally preferred materials. While the website had great information in a aesthetically pleasing design, participation may have been limited by navigation problems. We believe that the relaunch of this material along with new information on the Aveda Mission Leader platform for salons and spas in FY2016 will be more successful.

CONGRESS

The biennial Aveda Congress is a gathering of beauty professionals from around the world for a two-day event featuring intensive education and inspiration in state-of-the-art hair styling, creative makeup, and fashion (including trashion made from repurposed material) and business trends. The Aveda Congress also provides opportunities to learn from Aveda scientists and technical experts about the functional performance aspects of Aveda products and the ways in which Aveda furthers its Mission, including information on green salon practices.

At the 2013 Congress, we took the opportunity to showcase for the more than 3,500 participants our long-standing relationship with the Yawanawa community in Brazil. Chief Tashka Yawanawa, his wife, Laura and two traditional shamen stood before the gathering and offered a blessing to begin the event. Chief Tashka then talked about the importance of Aveda in supporting their culture and community through economic development opportunities and furthering their efforts to maintain control of their traditional lands.

Aveda grounded the Congress in the need for greater environmental protection not only because it is the right thing to do, but because of the direct connection to the future success of the business and all our stakeholders.



A GIFT SET PAPER THAT CHANGES LIVES

Since 2007, Aveda has purchased lokta bark paper from Himalayan Bio-Trade Pvt. Ltd (HBTL), a natural products processing and marketing company owned by a consortium of community-based forest enterprises in Nepal, to use in gift set boxes for the holiday season. Between 2007 and the end of 2013, Aveda purchased approximately 1.8 million sheets of the Certified Wildlife Friendly paper, a non-timber product that comes from 34,000 acres of protected forest habitat. According to HBTL, since Aveda began sourcing the paper, approximately 5,500 men and women have earned needed income either through year round or seasonal employment harvesting the lokta bark and producing the handcrafted paper. Parents and single mothers could earn enough to provide their children with an education. Where poverty was endemic, HBTL reports Aveda that over 2,400 families are now able to buy adequate food, improve their homes, and save for the future. In addition, an Aveda supported Global Greengrants Fund water system project gave hours a day back to women who had previously walked miles daily for clean water.



On April 25, 2015, Nepal was struck by a 7.8 magnitude earthquake, the largest to hit the country in 80 years... We received reports that about 95% of the houses in the region where many of the communities are involved with paper making are located have been severely damaged.

On April 25, 2015, Nepal was struck by a 7.8 magnitude earthquake, the largest to hit the country in 80 years. Affecting nearly 30 percent of Nepal's 28 million people, the official number of deaths was over 8,000 people (May) with almost another 18,000 injured; the official count will likely rise as additional information becomes available from rural areas. A second major quake and multiple aftershocks contributed to the toll on the region. We received reports that about 95% of the houses in the region where many of the communities are involved with paper making are located have been severely damaged. Aveda immediately responded by directing a \$20,000 grant from our Donor Advised Fund with Global Greengrants Fund to the Asia Network for Sustainable Agriculture and Bioresources for emergency relief work related to water in communities where Aveda has been involved, which was followed by an additional \$30,000 contribution for earthquake recovery from ELC. Relief funds for ANSAB were also raised through Global Greengrants Fund online from individual Aveda employees and Network members.

AVEDA — THE ENVIRONMENTAL STORY

The Aveda difference is realized not just in Aveda products, but in Aveda’s physical environments as well. Aveda strives to make its facilities have as little negative impact on the environment as possible. Aveda will stay committed to its Mission by searching for the state-of-the-art in ecologically friendly materials and construction techniques. To that end, Aveda requires its contractors and suppliers to meet and/or exceed Aveda’s mission by only using environmentally friendly materials that emit no or very little Volatile Organic Compounds (VOCs) into the atmosphere and are solvent and formaldehyde free. Materials shall be

made from rapidly renewable resources. Where hardwood or hardwood veneers are specified, they shall be FSC Certified (Forestry Stewardship Council certified wood from sustainably managed forests). Veneers shall be applied to agrifiber board, commonly known as Wheatboard, an agriculturally based composite panel product. Paints and finishes shall be virtually free of VOCs. Tile, carpet, etc. shall be made wherever possible from recycled materials and installed with adhesives that are VOC free.

Aveda requires that building plans and specifications include this statement for contractors and suppliers.

PRODUCT EXPERIENCE 2016 GOALS

In pursuit of our 2020 vision that all Aveda Network salons will participate in Earth Month and in “ecosalon” activities and/or certification, our 2016 goals include:

- At least \$7 million in Earth Month Fundraising
- At least 90% Concept Salon participation

- Over 4,000 Network professionals will engage with Aveda Mission Leader (approximately 10% of all Network professionals)
- Over 1,000 Aveda Mission Leader users will participate in the Green Salon Certification Project
- 100% of Experience Center Advisors and staff will participate in Aveda Mission Leader

GOALS	2020 VISION	2014 GOAL	RESULTS/PROGRESS
	100% network salon participation in Earth Month.	Global system in place to track participation; 90% Aveda Concept Salon participation.	72% Aveda Concept Salon participation in the U.S.
	100% active participation of the network in “ecosalon” activities/certification.	Develop effective incentives and measurement system: 20-30% participation.	Initial Green Salon Project did not meet goals; relaunch planned for FY2016

²⁵ Aveda Concept Salons are independently owned businesses that use and sell Aveda beauty products exclusively. Participation was evaluated based on sales of Light the Way candle sales.

PARTNERING WITH AUDUBON MINNESOTA

Nearly a decade ago, Aveda looked to establish relationships with environmental advocacy organizations around clean water and habitat protection in locations around the world where we have a presence. One of the great partners we found in the United States is the National Audubon Society, with Aveda Network salons working with local chapters in several parts of the US. Our corporate office, manufacturing facility, Midwest Distribution Center, Aveda Institute Minneapolis and area salons have developed a close partnership with Audubon Minnesota. Currently led by Matt Anderson, Audubon MN is involved in education, scientific research, conservation and advocacy around protecting important bird areas through working on clean water, bird friendly communities, and strategies to address climate change and energy.

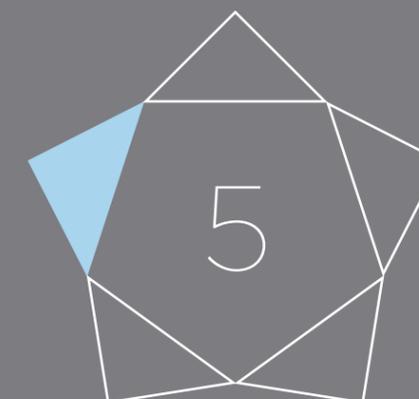


Matt describes Aveda as “one of the most mission driven entities that I have ever come across. That is true from corporate all the way down to the salons and spas.”

Audubon is a long-time Aveda Earth Month partner with the Minnesota office taking the lead and coordinating the work of local Audubon offices in seven states. Matt describes Aveda as “one of the most mission driven entities that I have ever come across. That is true from corporate all the way down to the salons and spas.” The relationship offers Audubon the opportunity, as Matt has put it, to get “out into the field and tell the story to the artists, stylists, and the Aveda trained staff who Audubon is, what we do, what their support does and why it matters.” Their efforts extend into advocacy, for example, when they worked with Aveda’s Earth and Community Care staff to encourage salon and spa guests to send postcards on the need for habitat protection to Minnesota’s Department of Natural Resources.

For Audubon, birds are the leading characters in telling the story of our relationship to the natural world.

Partnering with Audubon exemplifies Aveda’s efforts to make a meaningful commitment to action in service to the Earth.



Nº 5

Once the product is fully used up, a bottle of Shampure, a tube of Be Curly Curl Enhancer, or a jar of Tourmaline Charged Hydrating Creme is a potential source of raw material for new bottles, tubes, and jars. The end of a container's useful life doesn't mean that the materials in the packaging must be thrown away.

Aveda has long embraced the Cradle to Cradle philosophy, which envisions products and packaging made from biological materials that return to the environment as nutrients after use and durable nontoxic minerals or synthetic materials that are recycled for use again as technical nutrients. Our hair care formulas are designed to be applied and rinsed off, then returned to the environment with minimal impact;

our goal is that they function as Cradle to Cradle nutrients.

In contrast, nearly all of our packaging is designed to be a technical nutrient, remaining available as a recoverable material that can be reclaimed as an input into new packaging products without harm to people and ecosystems. We are beginning to explore the use of bio-based packaging materials that could be either nutrients that are returned to soil safely or technical nutrients that are recoverable and used as inputs for new packaging. Our focus with our product formulas and packaging is to design with the potential to close the loop of the product and packaging life cycle.

CLOSING THE LOOP WITH OUR PACKAGING SUPPLY CHAIN

Our Cradle to Cradle focus has led Aveda to become the beauty industry leader in developing innovative recycled content packaging for a wide variety of our products such that the packaging when recycled can be incorporated into newly manufactured bottles, tubes, and jars. Our work in packaging has been recognized by Cradle to Cradle silver certification across four product lines²⁶ and Cradle to Cradle endorsement for our business operations.

During FY 2013, we launched our Stress Fix™ and Invati™ product lines using 100% post-consumer recycled (PCR) content HDPE bottle components. To ensure the success of this project, our long-time partner that manufactures the colorants for our bottles had to address the

challenge of coloring PCR resins that vary in their base color and work with both a light colored bottle for Stress Fix™ and very dark colors for Invati. The Institute of Packaging Professionals gave Aveda its 2013 AmeriStar award for the 100% PCR packaging.

The next step was a re-launch in FY 2014 of our Dry Remedy line using a polyethylene resin that is 96% plant derived made from sugar cane and blended with a small amount of PCR LDPE or HDPE. Braskem is a Brazilian-based company that operates worldwide and has been a great partner with Aveda in developing bio-based resins due to their similar commitment to social and environmental sustainability and being transparent about their operations.

Further along the supply chain, Aveda staff worked with our blow molding and extrusion partners, Tri Core Braun and Axium, and CCL Tube to use

bio-based and PCR resins. Their success has led other component suppliers to offer similar capabilities, which indicates a growing demand for alternatives to virgin petrochemical resins. Significant growth will require making the bio-resins more cost-competitive with the virgin petroleum products.

A big challenge for Aveda is our use of virgin polypropylene in screw thread caps, dispensing caps and sprayers. We introduced PCR polypropylene for non-dispensing caps and are working with suppliers to develop alternatives for other closure uses with a goal completely eliminating virgin petroleum plastics in our packaging.

In other areas of packaging, Aveda worked with supply partners Johnson Printing and Neenah to create the first-ever coated paper stock with 100% PCR and high brightness level for folded cartons and hang tags.

We have also made significant headway in using recycled fabrics from Western Textiles (generally poly/cotton blends that are durable and launder well) for our reusable tote bags, hair colorist aprons, shampoo and cutting capes, and promotional T-shirts including our Earth Month T-shirt with a goal of sourcing all recycled textiles.

Other challenges remain. Work continues with suppliers on increasing the recycled content of aluminum tubes for oxidative hair colors. The tubes are impact extruded and efforts to incorporate high recycled content have resulted in production issues such tears and ridges in tube. We hope that by our next report, we can achieve improvements in these areas.

CLOSING THE LOOP WITH OUR GUESTS

The Aveda Full Circle Recycling Program builds upon our successful program to collect and recycle polypropylene caps dating back to 2007. As part of the Cradle to Cradle philosophy, we have been striving to eliminate waste across the life cycle of our products. We recognized that we needed to develop a more comprehensive program that supplemented the existing curbside recycling infrastructure. Partnering with g2 revolution, a recycling company that offers innovative solutions for tough recycling problems, we established a test project in Colorado giving consumers the opportunity to bring back any empty Aveda package or accessory to an Aveda Experience Center or a participating Network salon in Colorado if



²⁶ All packaging in the Dry Remedy, Men Pure-formance, and Smooth Infusion product lines received silver certification due to issues with printing inks.



...with sufficient time and effort, it is possible to improve virtually every aspect of packaging used by Aveda.

they could not recycle the package locally. The collected materials were sorted by g2 revolution and 98% of the received materials were recycled back into usable materials.

In 2013, we launched the Full Circle Recycling Program across all 107 company owned Aveda Experience Centers in the US, while continuing the program in 22 Colorado salons that participated in the pilot. Every participating location has a Full Circle recycling bin where consumers can toss accepted materials; consumers are urged to contact their local recyclers to see what they will take and avoid impacts associated with making special recycling trips. Full bins are shipped to g2 revolution's Findley, OH facility where the collected materials are sorted to be recycled into reusable material, with the goal of making it into new Aveda packaging or accessories.²⁷

Our two decades of work to shift away from virgin petrochemical packaging has led us to the view that with sufficient time and effort, it is possible to improve virtually every aspect of packaging used by Aveda. Part of this is our willingness to take on these challenges, but a great deal of our success is due to our decades long relationships with many of our packaging suppliers that are willing to work with Aveda to help us meet our sustainability goals.

END OF PRODUCT USEFUL LIFE 2016 GOALS
In pursuit of our 2020 vision that all Aveda product packaging will be in a closed loop cradle to cradle system, our 2016 goals include:

- 100% increase in bio-based polymer packaging (by tonnage) from FY2014

GOALS	2020 VISION	2014 GOAL	RESULTS/PROGRESS
	LEAVE NO TRACE—packaging in closed loop C2C system. Packaging materials are recovered for reuse and/or are compostable.	National roll-out of program in Aveda Experience Center locations COMPLETED.	COMPLETED. Program rolled out for Aveda Experience Centers and selected Network salons in Colorado.

²⁷ In the pilot program, the bins were shipped using UPS's Carbon Neutral Program. Currently, Aveda is not using the program, and has started using corrugated cartons for shipping to extend the useful life of the in-store bins. As of February 2015, g2 was storing the collected materials until sufficient quantities are accumulated for shipment to the recycling processor.

	2020 VISION	2016 GOAL
	All products made from ingredients that optimize the balance between naturalness, sustainability and performance.	• Average of 97% naturally derived ingredients for new retail product launches
	Products that achieve well-being with minimum requirement for use of resources.	• Implement formalized review of manufacturing energy requirements during new product formulation and production process development
	Sourcing that supports/preserves/enhances biodiversity, people and resource conservation. Local sourcing where practical.	• Aveda funding for 12 additional projects that deliver environmental and/or social benefits to our sourcing communities • Identify risks for at least 6 key ingredients from limitations on water availability in the supply chain
	Supply chain partners are aligned with Aveda Mission/beliefs/C2C commitments	• Development of a Community Supplier Agreement defining Aveda's obligations to small community suppliers of botanical ingredients to enhance the level of predictability of purchases and support if Aveda's needs for the ingredient change over time
	Company is net zero on carbon and potentially positive.	• 14% reduction in GHG emissions per kg production
	Company is zero waste to landfills for manufacturing and distribution and for product returns and excess inventory	• 80% recycling rate for manufacturing • 98% recycling rate for Midwest Distribution Center
	Water from robust water supplies; returning to ecosystems in healthy condition, at least 10% total reduction in use.	• On hold until capital budgeting process completed
	100% of Aveda employees go home uninjured: TIR=0	• A total incidence rate no greater than 1.45 ²⁸
	100% employee volunteerism.	• At least 50% participation of all North American employees in volunteer activities
	100% network salon participation in Earth Month.	• At least \$7 million in Earth Month Fundraising • At least 90% Concept Salon participation
	100% active participation of the network in "ecosalon" activities/certification.	• Over 4,000 Network professionals will engage with Aveda Mission Leader (approximately 10% of all Network professionals) • Over 1,000 Aveda Mission Leader users will participate in the Green Salon Certification Project • 100% of Experience Center Advisors and staff will participate in Aveda Mission Leader
	Leave No Trace—packaging in closed loop C2C system. Packaging materials are recovered for reuse and/or are compostable.	• 100% increase in bio-based polymer packaging from FY2014

²⁸ Goal is for FY2015 and will be updated when the FY 2016 goal is set.

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The Earth and its communities must be part of the equation from the start of our creative process, through the lifecycle of the products we make.

THINK

