THINK
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 professionals and guests—to achieve the well-being outcomes that are at the core of our product experience.

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

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 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.

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 FY2013–2014 Performance

#### Aveda Life Cycle

<table>
<thead>
<tr>
<th>WHAT WE ACHIEVED</th>
<th>WHERE WE FELL SHORT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product + Ingredient Research + Development</strong></td>
<td></td>
</tr>
<tr>
<td>C2C certifications or re-certifications for 11 products</td>
<td>New formulations and ingredients that require greater manufacturing energy</td>
</tr>
<tr>
<td>Completed 25 projects to address the changing global regulatory environment</td>
<td>Ongoing evaluation of Aveda’s Green Ingredient Policy not expected to be completed until FY2016</td>
</tr>
<tr>
<td>15 projects to manage raw material shortages</td>
<td></td>
</tr>
<tr>
<td>Implementation of research and products in development designed to reduce resource consumption in use</td>
<td></td>
</tr>
</tbody>
</table>

| **Ingredient Sourcing** |  |
| 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 | Level of investment needed to increase traceability, build stronger local communities, increase small supplier reliability and quality, and improve small supplier business resilience |
| Continued commitment to greater traceability for PKO derived ingredients and to use RSPO sources, including organic certified palm fruit oil | Complete documentation of Aveda supplier alignment with the Aveda Mission |
| Water-related sourcing community benefits projects funded through Global Greengrants Fund in India, Nepal, Brazil and Madagascar |  |

#### The Aveda Product Experience

<table>
<thead>
<tr>
<th>WHAT WE ACHIEVED</th>
<th>WHERE WE FELL SHORT</th>
</tr>
</thead>
<tbody>
<tr>
<td>$6 million raised during Earth Month</td>
<td>Relatively low participation rate (72%) of U.S. Aveda Concept Salons in Earth Month</td>
</tr>
<tr>
<td>$200,000 given to Hurricane Sandy Relief programs</td>
<td>Initial Green Salon Project did not meet goals (20–30% participation); relaunch planned for FY2016</td>
</tr>
<tr>
<td>97% of Aveda Lifestyle Salons and Spas participate in Earth Month</td>
<td></td>
</tr>
<tr>
<td>Catwalks for Water trashon shows</td>
<td></td>
</tr>
</tbody>
</table>

#### Product End of Life

<table>
<thead>
<tr>
<th>WHAT WE ACHIEVED</th>
<th>WHERE WE FELL SHORT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Circle packaging take-back program rolled out to Experience Centers</td>
<td>Continue to seek higher recycled content in aluminum tubes while in maintaining required performance characteristics</td>
</tr>
<tr>
<td>Introduction of more 100% PCR HDPE bottle components and introduction of PCR in non-dispensing polypropylene caps</td>
<td></td>
</tr>
<tr>
<td>Introduction of product packaging tubes made with a sugar cane-based polyethylene bio-resin that is 96% plant derived blended with PCR polyethylene</td>
<td></td>
</tr>
<tr>
<td>Introduction of 100% PCR coated paper stock for folded cartons and hang tags</td>
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</tr>
</tbody>
</table>

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* Purchases of RSPO certified ingredients began after FY2014; however, research on availability began during the reporting period.
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 inter-dependencies 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
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-derived 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

*We 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.*
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 EPEA; 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 principles1 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

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 CERTIFICATIONS1

<table>
<thead>
<tr>
<th>PRODUCT + INGREDIENT RESEARCH + DEVELOPMENT</th>
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<tbody>
<tr>
<td>PRODUCT</td>
</tr>
<tr>
<td>Men Pure-formance® Shampoo</td>
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<tr>
<td>Men Pure-formance® Conditioner</td>
</tr>
<tr>
<td>Dry Remedy® Masque</td>
</tr>
<tr>
<td>Dry Remedy® Shampoo</td>
</tr>
<tr>
<td>Dry Remedy® Conditioner</td>
</tr>
<tr>
<td>Dry Remedy® Daily Moisturizing Oil</td>
</tr>
<tr>
<td>Invati® Shampoo</td>
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<tr>
<td>Invati® Masque</td>
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<tr>
<td>Invati® Conditioner</td>
</tr>
<tr>
<td>Invati® Scalp Revitalizer</td>
</tr>
<tr>
<td>Smooth Infusion® Shampoo</td>
</tr>
<tr>
<td>Smooth Infusion® Conditioner</td>
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</tbody>
</table>

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.

1Environmental Protection Encouragement Agency, Hamburg, Germany
3Calendar year certification date of products were previously certified and either re-certified for the existing formula or for an updated formula.
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 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.

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 the use of halogenated preservatives, such as Kathon.

“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.”

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.”
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.

Our 2020 vision for products is to minimize resources and ingredients that balance naturalness, sustainability, and performance.
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
to highly specialized botanicals and essential oils. Moreover, the Aveda Mission drives us towards increasing transparency across our varied supply chains, creating a substantively and geographically complex sourcing process with information and material flows going in multiple directions. At the same time, our ongoing integration with ELC sourcing provides benefits through increased scale and will require Aveda to increase investment in our sourcing infrastructure to increase traceability, help build stronger local communities, increase the reliability and quality of small scale specialty raw materials for ingredients, and respond appropriately to market shifts by adjusting our purchases up or down.

The origins of our plant-derived ingredients typically start with farmed crops (including tree plantations) or wild-harvested forest and grassland plant species. These harvested materials are then either processed directly into ingredients such as essential oils or turned into intermediate compounds that are inputs to further additional manufacturing processes required to produce more complex ingredients such as surfactants. At each step along the way, there are a variety of small and medium size companies and organizations such as farmer cooperatives that make up our supply chains. Our most valued suppliers are those that have established an approach to their business that mirrors the Aveda Mission. Just as Aveda favors establishing business relationships with Mission-aligned salon/spas, the same goes for supply chain partners.

For well over 20 years, Aveda has been addressing a range of environmental and social considerations across the supply chains for our ingredients. During the FY2013–2014 period, we benefited from access to the collected sustainability information as suppliers began to go through ELC’s screening process for environmental and social responsibility performance. All supplier ingredients undergo a Green Chemistry screening for human and environmental health assessments consistent with ELC’s Green Chemistry principals. All new direct and some indirect suppliers are subject to a third party evaluation for compliance with ELC’s Supplier Code of Conduct. Additional scrutiny of Aveda-only suppliers for alignment with the Aveda Mission has been a longstanding responsibility of Aveda Global Supplier Relations (GSR), the process for which has become better documented in recent years. Further information on Aveda’s supplier relationships is available on our website.

The chart below lists audit results for Aveda-only potential and existing suppliers; the limited number reflects the understanding that the vast majority of our suppliers also provide ingredients and finished products to other ELC brands.

**AVEDA-ONLY SUPPLY CHAIN AUDIT RESULTS FY2011–FY2014**

<table>
<thead>
<tr>
<th>TYPE OF AUDIT*</th>
<th>NUMBER OF AUDITS</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>CoC</td>
<td>5</td>
<td>2 audits passed (1 was self-audit for non-saleable goods)</td>
</tr>
<tr>
<td>IMO</td>
<td>4</td>
<td>1 Level 5 (highest achievable)</td>
</tr>
</tbody>
</table>

*LGC is an audit of conformance to the ELC Code of Conduct; IMO is an audit pursuant to the IMO Fair for Life Bonsa & Fair Trade Certification Programme.*

*Direct suppliers provide ingredients and materials for products. Indirect suppliers are all the other products and materials purchased for offices, institutes, stores, etc.
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
- Mass Balance
- Traceability
- Book and Claim

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. 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 wherever available (for example, 94% of essential oils are committed to sustainable agriculture and using certified organic ingredients where available (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 ingredients and 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 Preserved, guaranteeing traceability to the producer, and Ecocertified by IBD Brazil, assuring that the producer practices fair trade and invests in human and environmental conservation.

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 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.

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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 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.
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.

2020 VISION: Sourcing that supports/preserves/enhances biodiversity, people and resource conservation. LOCAL SOURCING where practical

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

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

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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 Sóciocultural Yawanawa (ASY) that is working on improving the consistency of urukum to meet Aveda standards.

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 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

“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
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 logistics operations along with key aspects of our corporate activities related to Earth

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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.

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

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.
MAKING & DELIVERING PRODUCTS

MANUFACTURING AND DISTRIBUTION ENVIRONMENTAL GOAL PROGRESS

<table>
<thead>
<tr>
<th>2020 VISION1</th>
<th>2014 GOAL</th>
<th>2014 PROGRESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company is net zero on carbon and potentially positive</td>
<td>10% additional reduction; GHG inventory system in place</td>
<td>—Maintained purchases of offsets 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 service project in FY2016 to enable the Yawanawa to protect carbon stocks and other values on their territory in Brazil</td>
</tr>
<tr>
<td>Zero waste to landfills for manufacturing, distribution, product returns, and excess inventory</td>
<td>Recycling rate of 90% for manufacturing and 99% for distribution System in place to track product returns</td>
<td>Recycling rates for all wastes —Manufacturing 67% —Distribution 65% Recycling rates for wastes that are not hazardous or industrial wastes —Manufacturing 77% —Distribution 96% Product returns are tracked as part of overall product that cannot be sold or donated</td>
</tr>
<tr>
<td>Water from robust water supplies, returning to ecosystems in healthy condition, at least 10% total reduction in use</td>
<td>Downward trend in total water use through new efficiency projects New product innovation targets use reduction “downstream”</td>
<td>Change for the Blaine campus from FY2012 to FY2014: -6% Initiated research on low water use products that deliver professional level performance</td>
</tr>
</tbody>
</table>

WATER AND INDUSTRIAL WASTEWATER

During the FY2012–FY2014 period, we were successful in reducing 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 (restrooms, 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. 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, rose 3% and the use of natural gas jumped 33%.

Energy use is a primary driver for Blaine’s GHG emissions. 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.
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 formulations 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 government, 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.”

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.

**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 integrity 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.
Aveda products are sold in over 30 countries. Over the years, Dave has developed a number of strategies to optimize the multiple demands of his role. Where possible, Dave has worked 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 indicators show a decline. Throughout the Blaine campus, Aveda has sought 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 2013.

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.
## FY2012–FY2014 PERCENTAGE CHANGE BLAINE MANUFACTURING

<table>
<thead>
<tr>
<th>WASTE TYPE</th>
<th>ABSOLUTE</th>
<th>INTENSITY PER UNIT</th>
<th>INTENSITY PER KG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal Waste</td>
<td>-12.1%</td>
<td>-21.9%</td>
<td>-18.6%</td>
</tr>
<tr>
<td>Hazardous Waste</td>
<td>-18.1%</td>
<td>-27.3%</td>
<td>-24.2%</td>
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<tr>
<td>Industrial Waste</td>
<td>-11.1%</td>
<td>-21.1%</td>
<td>-17.8%</td>
</tr>
<tr>
<td>Total Recycled</td>
<td>1.7%</td>
<td>-9.7%</td>
<td>-5.9%</td>
</tr>
</tbody>
</table>

## 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
- 10% additional reduction; GHG inventory system in place
- Program to enable payment for ecosystem services such as REDD+ as alternative to offsets developed
- Recycling rate of 90% for manufacturing and 99% for distribution
- System in place to track product returns
- Downward trend in total water use through new efficiency projects
- New product innovation targets use reduction “downstream”

### 2016 GOAL
- 14% reduction in GHG emissions per kg production
- 80% recycling rate for manufacturing
- 99% recycling rate for at Midwest Distribution Center
- On hold until capital budgeting process completed

### 2020 VISION
- Company is net zero on carbon and potentially positive
- Company is zero waste to landfills for manufacturing and distribution and for product returns and excess inventory
- Water from robust water supplies; returning to ecosystems in healthy condition, at least 10% total reduction in use
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 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)

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

*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 into 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.
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 walks\(^*\) 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 workplace 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.

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

<table>
<thead>
<tr>
<th>2020 VISION</th>
<th>2014 GOAL</th>
<th>2014 PROGRESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% of Aveda employees go home uninjured: TIR = 0</td>
<td>Total Incidence Rate (TIR) = 1.43</td>
<td>TIR = 2.57</td>
</tr>
<tr>
<td>100% employee volunteerism</td>
<td>25% employee participation North America.</td>
<td>35% of Blaine employees(^*)</td>
</tr>
</tbody>
</table>

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, 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.

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.

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.’”

WENDY ROSE, Aveda Volunteer

“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

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.

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

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 of 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.

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 1.45
- At least 50% participation of all North American employees in volunteer activities

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.


23 Information from Xerces Society, the White House, and the U.S. Fish & Wildlife Service.
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.
Complementing the product experience are 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).

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 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 encourage 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.

Inherently 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).

The Aveda Mission Leader program, which began in 2013, is similar to the Green Guide in that it is a pilot program to encourage our Network partners to develop a deeper understanding of the environmental burdens in 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...
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 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 with 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 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)
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 an eco-friendly 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.

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.

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.

In FY2014, we saw a 72% participation rate for the 1,530 plus U.S. Aveda Concept Salons® 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.

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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. 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 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 where 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

*Note: Aveda Concept Salons are independently owned businesses that 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.

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

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 Minneapolis 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.

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

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**THE AVEDA PRODUCT EXPERIENCE**

**AVEDA — THE ENVIRONMENTAL STORY**

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**2020 VISION**

- 100% network salon participation in Earth Month.
- 100% active participation of the network in "ecosalon" activities/certification.

**2014 GOAL**

- Global system in place to track participation; 90% Aveda Concept Salon participation.
- Develop effective incentives and measurement system: 20–30% participation.

**RESULTS/PROGRESS**

- 72% Aveda Concept Salon participation in the U.S.
- Initial Green Salon Project did not meet goals; relaunch planned for FY2016

**Notes:**

- Aveda Concept Salons are independently owned businesses that sell Aveda beauty products exclusively. Participation was evaluated based on sales of Light the Way candle sales.
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;
All packaging in the Dry Remedy, Men Pure-formance, and Smooth Infusion product lines received silver certification during FY 2013. We launched our Stress Fix™ bottle in FY 2014. 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 the 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

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PRODUCT END OF LIFE

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

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.

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

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<td>National roll-out of program in Aveda Experience Center locations COMPLETED.</td>
<td>COMPLETED: Program rolled out for Aveda Experience Centers and selected Network salons in Colorado.</td>
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<th>2020 VISION</th>
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<td>All products made from ingredients that optimize the balance between naturalness, sustainability and performance.</td>
<td>• Average of 97% naturally derived ingredients for new retail product launches</td>
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<td>Products that achieve well-being with minimum requirement for use of resources.</td>
<td>• Implement formalized review of manufacturing energy requirements during new product formulation and production process development</td>
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| 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
• 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 1,000 Aveda Mission Leader users will participate in Aveda Mission Leader (approximately 10% of all Network professionals) |
| Leave No Trace—packaging in closed loop C2C system. Packaging materials are recovered for reuse and/or are compostable. | • Aveda Mission/beliefs/C2C commitments
• 100% increase in bio-based polymer packaging from FY2014 |

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 cardboard. As of February 2015, g2 was storing the collected materials until sufficient quantities are accumulated for shipping to the recycling processor.
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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

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