

THINK

JUST

The hands of Shivanth Tandon, Aveda's co-founder, who helped create some of our first shampoos. He's still providing inspiration and insight as we move forward.

AVEDA
THE ART AND SCIENCE OF PURE POWER AND LIGHT ESSENCES
**EARTH AND COMMUNITY CARE
REPORT 2011-2012**

35 YEARS OF CARING



THINK

AT AVEDA, WE THINK IN NEW WAYS.

We create synergy by simultaneously pursuing deserving economic and ecological goals. There is power in bringing two disparate things together (and two heads are better than one), so we meet today's challenges with a commitment to partnerships that double our force to change the world.

TODAY AND TOMORROW AT AVEDA,

BEAUTY IS AS BEAUTY DOES.SM



ATTESTATION We have been engaged by the Aveda Corporation to collect and review the data used in the Earth and Community Care Report covering Fiscal Years 2011 and 2012 and to perform limited analyses on selected data to meet reporting objectives. Aveda has provided all the data that we have requested, and such data have been reviewed for internal consistency and accuracy. Aveda did not request an evaluation of the validity of various statements regarding the use of organic, fair trade, or other specific claims regarding ingredients, or other types of specific claims. Consequently, we did not conduct an examination of the documentation for such statements and therefore do not provide assurance for such statements within the report. We have provided feedback to Aveda where we believed that revisions and/or corrections to data and findings were required. To the best of our knowledge, the data and the findings based on the data contained in this report are a fair representation of the information provided to us.

MICHAEL S. BROWN, PH.D.
Brown and Wilmanns Environmental, LLC
August, 2013

OBJECTIVE This report provides an update on key aspects of Aveda's Earth and Community Care achievements for fiscal years 2011-2012. We trust that you will find it interesting and informative. We seek feedback from you, our stakeholders, to guide us in future reporting. Please send your comments to avedaecc@aveda.com.

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PRESIDENT'S LETTER

DEAR STAKEHOLDER,

After multiplying Aveda's economic size by a factor of about five over the decade following its acquisition by The Estée Lauder Companies, Inc. (ELC) while enhancing our socio-environmental performance as outlined in our 2007–2008 Earth and Community Care report, the recession in 2009/2010 presented Aveda with the undesired opportunity of navigating our Mission-driven business through an economy offering little if any growth. Our core North American salon/spa channel, which represents the major part of our global business, was hit hard by the downturn during our 2010 fiscal year (July 2009 to June 2010).

We are proud to say that Aveda's belief that economic and ecological goals can be synergistic has gone unchallenged during these adverse market conditions. Our unique business culture and model succeeded in generating growth 400 basis points greater than the overall U.S. hair care market, significantly increasing our share over each of the three fiscal years 2010 to 2012. As the North American hair care market recovered, our share gains translated into solid revenue growth.

We believe that Aveda's ability to deliver economic as well as socio-environmental performance in the midst of the devastating recession is a result of our way of doing business, which is exemplified in our approach to product design. We ask the question, "What is the Aveda difference a potential new product would bring to our consumers and the professionals who serve them?" We abhor the idea of "me-too" products that are already in oversupply in the market. Rather, we identify compelling global consumer and professional needs in which Aveda's core values and vision can offer a meaningful base for differentiation.

In a world challenged by stress on natural resources, focusing on innovation, differentiation and quality is the strategic and responsible approach we choose for our business. We are doing more with less, cutting down the number of new product initiatives and promoting better stewardship of resources. This has created an opportunity for growth in higher-value-added product categories driving better bottom line results. We believe that our colleagues, empowered by the Aveda Mission, are growing a culture of innovation simply because when it comes to designing socio-environmentally responsible products, the supply chain offers very few off-the-shelf turn-key solutions.

At Aveda, we expect each of our employees to contribute to both winning in the marketplace and living our Mission. Our long-term economic and socio-environmental success is a result of the extraordinary engine provided by our colleagues' intrinsic motivation. They feed our business culture, which in the final analysis, is a sustainable competitive advantage.

We celebrate being better today than yesterday, and know that our human engine will take us farther in addressing our sustainability challenges so that we can continue to look forward to tomorrow.

Dominique
DOMINIQUE CONSEIL,
AVEDA GLOBAL PRESIDENT



**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.**

ABOUT THIS REPORT

The report covers July 2010 through June 2012 (Fiscal Years 2011 and 2012), with some updates through the end of calendar year 2012. The period was an important transition for Aveda from coping with a very challenging business environment in 2010 and 2011 to seeing significant improvements in 2012. Throughout the period, Aveda maintained and strengthened our commitment to our Mission and the Ceres and Cradle to Cradle® principles.

Aveda continued focusing on innovation in products and packaging, introducing Invati™ solutions for thinning hair products C2C certified by the Cradle to Cradle Products Innovation Institute and made with 97% naturally derived ingredients, a body care line — Stress-Fix™ — that is certified organic by Ecocert and 66% post-consumer recycled (PCR) in most of our tubes to continue our commitment to recycled content pioneered in our bottles that now contain 80-100% PCR. We evaluated the carbon and water footprints of products and packaging in key categories and conducted a pilot test to recover used packaging that is not typically recycled in municipal programs. We also strengthened our supply chain programs. Improvements in manufacturing, reductions in many environmental impacts, and improvements in our safety programs continued as we became further integrated into the Estée Lauder Companies' (ELC) Global Supply Chain.

This report marks Aveda's 35th year of business. In it, we look back on 35 years of caring for people and the planet and to a future of intensifying that care as our business grows. This deep commitment, "from the products we make to the ways in which we give back to society," strongly differentiates Aveda and obligates us to always strive to do better. We are strengthened by our parent company's commitment to positioning the brand for strong business growth that will enhance our commitment to the Aveda Mission.

We hope that the information in this report is of interest to a broad range of stakeholders, but it is designed to be of greatest interest and use to our employees, our network of thousands of independent salon businesses and to our parent company. It is their collective engagement in and support for the Aveda Mission that enables Aveda to achieve the Earth and Community care results that are presented and celebrated in these pages.



WHO WE ARE

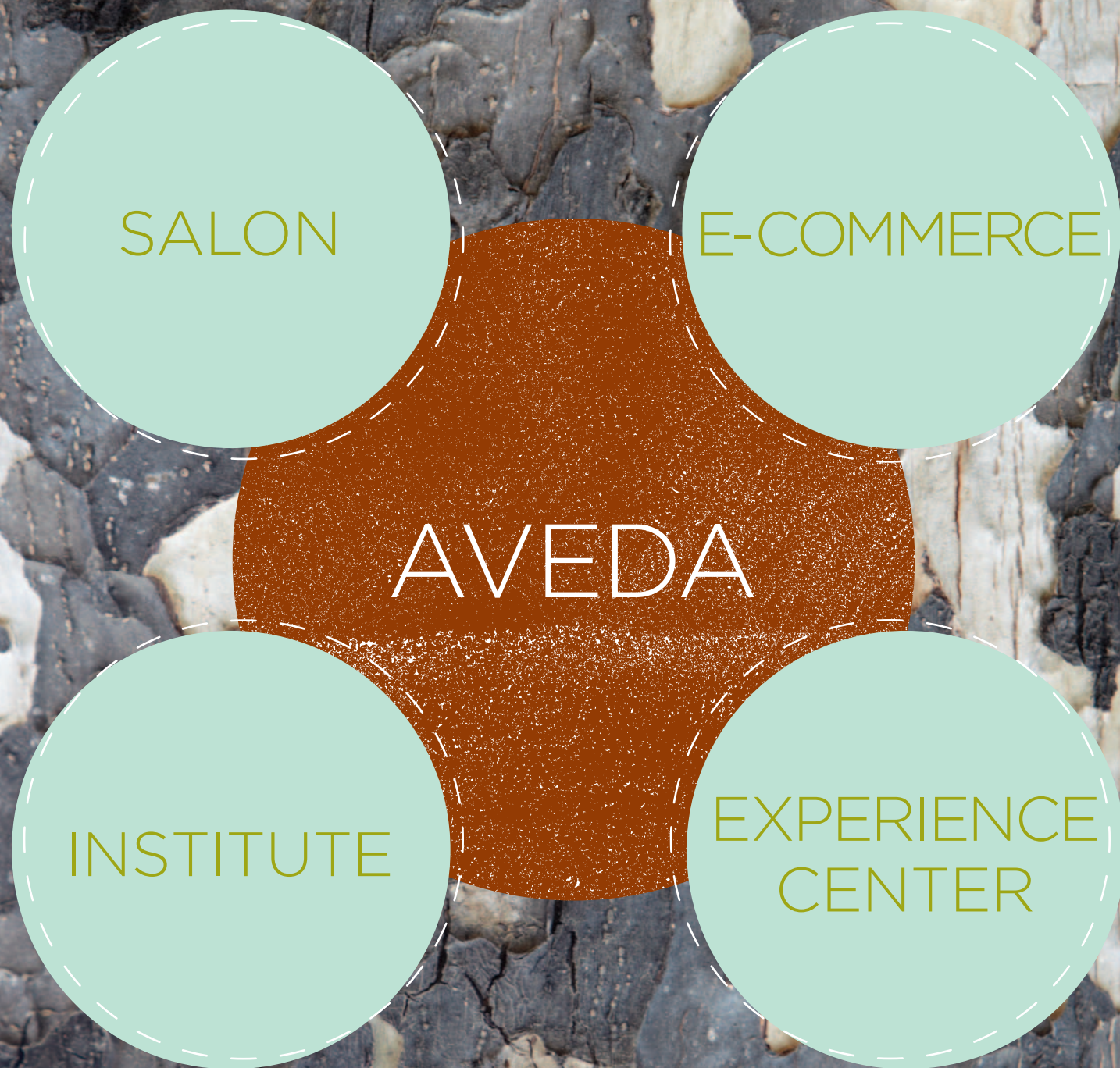
HOW CAN INDIVIDUAL
SALONS
MAKE A BIG
DIFFERENCE?



WHEN THE THOUSANDS OF
INDEPENDENT SALONS
THAT ARE PART OF THE
AVEDA NETWORK
SHARE OUR MISSION,
THEY MAKE A BIG IMPACT.



IN PRIOR REPORTS (2007-2008 and 2009-2010), we described Aveda in depth, including the transition from a privately held company to an ELC brand in 1997 and the ongoing mutual influences between Aveda and our parent company. (These reports are available at aveda.com; reports dating back to the 1990s can be found at corporateregister.com). This report provides a brief review of ongoing aspects of Aveda as well as recent changes in our business. It then focuses in some depth on our global network of thousands of independently-owned salons and spas, most of which are small businesses, whose commitment to and alignment with Aveda is the basis for our mutual success in a highly competitive business space.



THE AVEDA BUSINESS

Aveda is one of 29 brands within The Estée Lauder Companies, Inc. (ELC) (elcompanies.com). Founded in 1978 in Minneapolis, Minnesota, Aveda was a privately-held company until the ELC purchase. While remaining deeply committed to its founding principles of developing products that harness the power of plants to produce highly effective professional results while doing so in an environmentally and socially responsible way, Aveda has grown approximately five-fold subsequent to becoming an ELC brand. (See our 2009-2010 report (p. 10-14) for a discussion of ELC’s support for Aveda’s uniqueness as a brand.) Beginning in 2008, Aveda, along with other ELC brands, has become more tightly integrated into corporate operations that have resulted in growing business efficiencies coupled with better systems for improving environmental, health and safety performance.

Fundamental business functions such as supply chain management, manufacturing and distribution operations, quality, and, most recently, research and development are organizationally integrated into ELC. At the same time, these functions participate in the Aveda Stewardship Team led by the Aveda Brand President, which assures alignment with brand principles and attributes including commitment to environmental and social responsibility articulated by Aveda as “Earth and Community Care.”

GOVERNANCE

As previously described (2007-2008 report, pages 12-14), the Aveda Stewardship Team structure has remained in place with all of the business functions and regions gathering on at least a quarterly basis to review key business issues. An additional governance team was established in the first half of 2011 in response to corporate organizational changes and brand growth. Participants in the Brand Equity Stewardship Team (BEST) include

Global Marketing, Global Creative, Global Communications, Global Education, Earth and Community Care, Global Product Development and the Global Brand President, along with other functions depending on current issues. The BEST is charged with enhancing brand equity and aligning brand programs with its principles as the company expands and grows into new product areas, business channels and markets around the world.

THE AVEDA BUSINESS ECOSYSTEM:

The Salon/Spa Network

In our 2007-2008 report (p. 14-17), we described elements of the Aveda “business ecosystem” — manufacturing, retail distribution in stores and online through e-salon, product distribution through salons and spas and professional development of hair stylists and other personal care service providers through a network of Aveda Institutes and affiliated educational organizations (see chart p. 18). Other essential components of the “ecosystem” include research, product development and the hundreds of businesses and communities in our supply chain that make possible the products that are the foundation of our business success.

The entire “ecosystem” is what makes Aveda a successful and growing business; it is Aveda’s relationship with its independent salon/spa partners that makes the brand unique in our industry. While some partners in the network own multiple salons, many are very small businesses that own and operate a single salon or spa. Aveda’s business success is linked to the success of these business partners who generate a significant portion of product sales and leverage our commitment to the Aveda Mission.

The model of Aveda’s support for and partnership with its salon/spa network has evolved significantly in the past decade or so, to the point where over 100 of the fastest growing 200 salons in the United



States (as rated by *Salon Today* magazine) are Aveda network salons that exclusively carry Aveda products. The Aveda network transitioned from tens of thousands of salons that carried Aveda products along with those of other manufacturers to a network with one-third as many salons and spas, 80% of which — globally — use and sell only Aveda products, often align strongly with the Aveda Mission in their salon design and operations practices and are frequently very successful businesses in their communities.

This transition is a result of Aveda's commitment to listening to its network professionals, continuous product improvement and providing business and educational support on product use, professional artistry, business principles and practices and environmental and socially

responsible business practices. Aveda's field-based Salon Development Partners (SDPs) are supported by the Aveda Customer Relations team at headquarters and the Aveda Global Education Team. The latter works closely with the Global Artistic Team to assure our network partners' — and Aveda's — business success and growth by building on the functionality of the products, the basic professional training provided by the Institutes, the timely delivery of products and the importance of Aveda's Mission commitment to the overall brand equity.

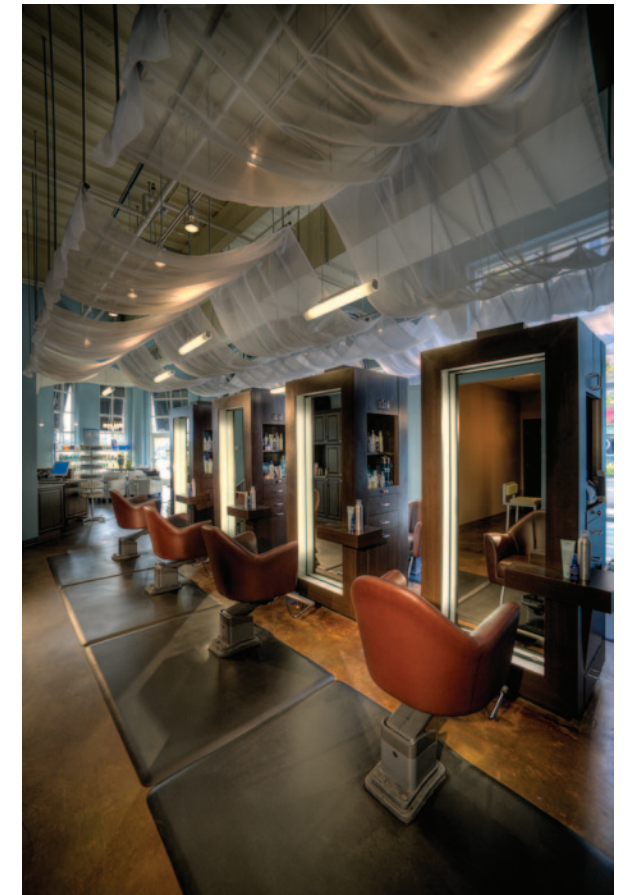
Because of Aveda's selective distribution strategy and much lower number of salon customers per SDP than the industry average, SDPs perform a very different function from the broader industry's sales representatives or account executives.



Each SDP works closely with a select number of salons on a continuous basis to develop strategies that maximize the overall success and sustainability of their businesses. Aveda works with highly successful salons to create key sales and expense benchmarks and through the Aveda Business College (ABC) provides courses on how to meet and exceed the benchmarks. The business ecosystem is a success when salons and spas gain and retain talent and guests. Thus, SDPs are committed to going

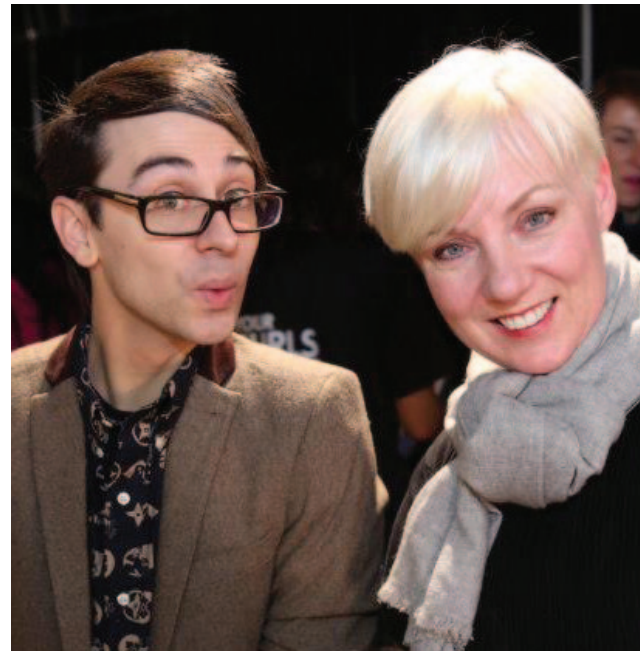
far beyond increasing Aveda product sales, as their success is the direct result of their salon and spa customers' success.

Augmenting the SDPs' work are members of the Global Education Team, which includes both Aveda employees and highly skilled network professionals, who excel at communicating with salon and spa professionals information about Aveda products and instilling deep knowledge of how to use them to meet their guests' needs and expectations.



Education is core to achieving a reputation for technical excellence, which enables salons to attract and retain outstanding professionals who are essential for business sustainability. For the many salon owners whose art led them to managing a business, Aveda provides through the ABC education and training in business practices that enable financial success.

Of increasing importance to Aveda's and the network's success is the Global Artistic Team. Led by Aveda's Creative



Director, who is a globally recognized hair stylist, the team is composed of outstanding professionals within Aveda and in the Aveda network. In addition to providing direct training through classes the team has become very successful at shows such as Aveda Congress, regional Master Jams and the North American Hairstyling Awards (NAHA).

This combination of business and education support has led to the continued growth of Aveda's Concept Salon network — salons that align exclusively with Aveda. Those that meet conditions required to achieve a large retail business have the opportunity to co-brand with Aveda and become known as Lifestyle Salons. There are salons in the Aveda network that carry multiple product lines, but the trend is toward increasing the proportion of Concept Salons, due in part to the additional education that Aveda makes available to those that align exclusively with the brand.

This alignment is also important to leveraging Aveda's Mission and our potential impact as a company. While all network partners receive

extensive education on Aveda's Earth and Community Care commitments, Concept and Lifestyle Salons are strongly encouraged to demonstrate that they share these through their business practices, and Lifestyle salons are required by contract to follow Aveda store design and materials selection guidelines. In turn, their exclusive purchase and sales of Aveda products enhances our ability to maintain these commitments in an increasingly competitive marketplace.

These Mission-aligned salon owners incorporate preferred environmental and social responsibility practices (e.g., using Aveda's web-based Mission Leader salon design and operational resource management tools [see Earth Care section] and engaging in our annual Earth Month campaign [see Community Care section]), which extends Aveda's positive impact on the Earth and its communities beyond what we could do solely as a manufacturer and retailer. This is the beauty of the Aveda business model that enables, encourages and inspires our small business partners to follow the Aveda Mission. However, this alignment does not come without



SECTION	2020 VISION	2012 GOAL AND RESULTS/PROGRESS	2014 GOAL
PRODUCTS & PACKAGING	All products made from ingredients that optimize the balance between naturalness, sustainability and performance.	GOAL: 10% increase in naturally derived ingredients over current totals. RESULT: Limited progress in key areas.	Evaluate Green Ingredient Policy to reflect updated vision.
	Leave No Trace — packaging in closed loop C2C system. Packaging materials are recovered for reuse and/or are compostable.	GOAL: Pilot packaging recovery program completed. RESULT: Initial pilot completed and continued for ongoing learning.	National roll-out of program in Aveda retail locations completed.
	Products that achieve well-being with minimum requirement for use of resources.	GOAL: Key product category baseline Life Cycle Analysis (LCA) looking toward a future goal of products with 90% reduction in resource use. RESULT: Sample LCAs completed on key product/package categories to guide future product design.	Innovation pipeline has potential products in place to reduce resource consumption in use.

SECTION	2020 VISION	2012 GOAL AND RESULTS/PROGRESS	2014 GOAL
EARTH CARE	Company is net zero on carbon and potentially positive.	GOAL: 10% reduction in absolute emissions at Aveda controlled facilities; inbound raw material suppliers and outbound shipments; business travel. RESULT: 12.6% reduction at Blaine; shipping up; no additional data.	10% additional reduction; system in place to track emissions in other parts of the business; program to enable payment for ecosystem services such as REDD+ as alternative to offsets developed.
	Company is zero waste. • Manufacturing and distribution • Product returns and excess inventory	GOAL: 90% diversion from landfill/incineration in Blaine manufacturing and 100% diversion in distribution. RESULT: 75% manufacturing; 98% distribution.	90% manufacturing/ 99% distribution system in place to track product returns.
	Water from robust water supplies; returning to ecosystems in healthy condition, at least 10% total reduction in use.	GOAL: Water footprints calculated for operations and key shampoo/ conditioner products. RESULT: Operations footprint not complete. Product footprints calculated.	Downward trend in total use through new efficiency projects. New product innovation targets use-reduction “downstream.”
	Sourcing that supports/preserves/ enhances biodiversity, people and resource conservation. Local sourcing where practical.	GOAL: 100% of botanical ingredients certified organic, sustainable, etc. 10% of non-botanical ingredients (e.g., babassu betaine) from certified source materials. RESULT: Actual — 92%+ essential oils/ 90%+ botanicals. Others remain few.	Goals under review. Supply chain realities make 100% unlikely — will continue to obtain the highest % possible.
	100% Employee Volunteerism.	GOAL: 25% employee participation North America. RESULT: Documented 10% participation.	Documented 35% participation.
COMMUNITY CARE	100% network salon participation in Earth Month.	GOAL: 90% of Concept salons participate. RESULT: Inconsistent data preclude accurate reporting.	Global system in place to track participation; 90% Concept Salon participation.
	100% active participation of the network in “eco-salon” activities/ certification.	GOAL: 20% participation. RESULT: Tool developed to facilitate but no measurement system in place.	Develop effective incentives and measurement system: 20-30% participation.
	Supply chain partners are aligned with Aveda Mission/beliefs/C2C commitments.	GOAL: 50% of Aveda suppliers qualified under ELC supplier screening process. RESULT: Process underway in FY 2012 but not completed.	Same
	100% of Aveda employees go home uninjured: TIR = 0	GOAL: TIR @ 1.0 RESULT: TIR @ 2.15	Same

challenges, as discussed later in the “Rooster Feather Challenge” on page 20.

KEY ISSUES AND PROGRESS ON VISION & GOALS
Voluntary Product Recall

We conducted a voluntary consumer recall of Lash Abundance™ Boosting Serum in March of 2012 after it was determined that the preservative system in the formula may not have been sufficient to protect against certain microorganisms. Aveda conducted a thorough evaluation and concluded that the risk of eye irritation or infection in healthy individuals following the use of this product was low. However, there was the potential of heightened health risk for a small number of consumers and once this was determined we took prompt steps to recall the product.

ACHIEVEMENTS AND ONGOING EARTH AND COMMUNITY CARE CHALLENGES

Aveda enters its 36th year with many accomplishments and some significant ongoing challenges.

- As we have reported over the years, we have achieved overall success in increasing the naturally derived content to high levels for many of our products. That being said, most of our products, particularly hair color and styling and makeup, contain some synthetic ingredients and preservatives that are key to their performance. The replacement of these ingredients continues to be a focus for Product Development and R&D.
- We would like to know more about the environmental footprint of our ingredients and products as we look to improve product design.
- We continue to lead our industry in packaging reduction and recycled content and continue to promote packaging recycling. A large proportion of our total packaging volume continues to not be recycled through public programs after use. In response, we have been

experimenting with ways to responsibly keep it out of the waste stream and repurposed consistent with our commitment to Cradle to Cradle® principles and our vision of leaving no trace.

- We continue to evaluate and implement operational improvements in alignment with the ELC Global Supply Chain in efforts to reduce our footprint. Our challenge is to continue to seek footprint reductions in the face of significant growth in our manufacturing and distribution operations that have accompanied a strongly growing business.
- We have enjoyed dramatic success in recent years with our Earth Month program and have been able to increase our support and the support of our salon and spa network for protecting clean water around the world. Maintaining increases in both Earth Month and other giving along with volunteering will be an ongoing commitment.

PROGRESS TOWARD OUR 2020 VISION

In our 2009-2010 report, we set forth an aspirational vision for 2020 that includes creating a “big, healthy footprint” and “leaving no trace.” Progress has been made in some areas, less so in others, and still other aspects of the vision are being rethought in conjunction with our parent company. A summary of where we are and where we expect to be in 2014 appears on pages 17-18.





THE ROOSTER FEATHER CHALLENGE

During the reporting period, a difficult stakeholder challenge arose for Aveda in our relationship with some salons in our network: the introduction of rooster-feather accessories for hair designs. This was a fashion trend that caught on rapidly and some salons in the network offered these as part of their styling services. This resulted in strong criticism directed at Aveda both by individual consumers who were offended that a company with a long-standing commitment against animal cruelty would allow "our" salons to use the feathers in their business and by an advocacy group, United Poultry Concerns (UPC), which posted an open letter to the Aveda President demanding that we stop this practice in "our" salons immediately. Therein lay the challenge: Aveda does not own or franchise the salons in the network so we cannot "demand" or "dictate" how they operate their businesses. We explained to our network through an open letter from our president and direct contacts by SDPs and other Aveda executives why this practice was not aligned with the Aveda Mission and encouraged the salons to discontinue it. Over a period of months, all but seven salons voluntarily discontinued the practice. Aveda informed those salons that chose to ignore our request that they would no longer be offered Aveda products, at which point all agreed to discontinue the use of the feathers. In early 2013, Aveda met with UPC, to explain the extent of our efforts to end this practice. UPC supported Aveda's efforts and results through a post on their website, "Rooster Feather Hair Extension Trade Deal a Serious Blow by Aveda!"

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WHEN NEW PRODUCTS
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**SUSTAINABLE INGREDIENTS
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THEY REINFORCE OUR
LONG-TERM COMMITMENT
TO PROTECTING THE EARTH.



OUR RECENT REPORTS have extensive discussions of Aveda's many product achievements in meeting our Mission commitments, our commitment to Cradle to Cradle® design, the needs of our professional network and guests and our Green Ingredient Policy. Recent achievements are shown on page 31. We recognize that our multiple commitments create some tensions that we have learned to live with over the decades of practicing our unique approach to product development and that lead us to constant rethinking about the balance between "natural," "sustainable" and "performance."



We see increasing competition for land between the need for food and other plant uses. Our commitment to using sustainably sourced plant-based ingredients whenever possible creates the obligation to work to ensure that the ingredients we use are produced responsibly or to find substitutes. Most of our products contain some synthetic ingredients such as preservatives in order to deliver an appropriate level of product functionality, safety and shelf-life. This is where the Principles of Green Chemistry play an important role in helping us thoughtfully choose, whenever possible, synthetic ingredients that are processed in a manner that is better for the environment than common synthetic alternatives.

An example of our thoughtful use of synthetic ingredients is our use of a combination of naturally derived and synthetic preservatives to deliver to consumers a safe product. Another example is our use of preferable silicones in products where the unique function of this ingredient class has led to their widespread use throughout the market. We have found that an inventive use of a limited range of preferable silicones, specifically dimethicones, can result in the unique functionality desired at low-use levels.

As we move forward, we will continue our focus on and commitment to high naturally derived ingredient content in our products while weighing sustainability, performance and safety considerations in product design. Our Green Ingredient Policy reflects our efforts to continually evolve as scientific progress helps us find better solutions to our triple equation of naturalness, performance and sustainability.

PROGRESS AND PROSPECTS FOR PRODUCT DEVELOPMENT

During FY 2011 and especially in FY 2012 there has been greater integration of Aveda R&D and Product Development with corporate ELC R&D and Product Development. The R&D integration

was formally implemented at the end of FY 2012. As a result:

- Aveda is the ELC Corporate Center of Excellence for Hair Care and NOGS (Natural, Organic, Green and Sustainable).
- Aveda is the Corporate Key Category Leader for Shampoo/Conditioner, Professional Hair Color & Texture and Phytotechnologies, leading development of plant-based technologies for the ELC Brands.
- The Aveda Innovation and Product Development teams are working closely with ELC's Green Chemistry initiative experts to develop naturally derived skin and body product innovations.
- Aveda's Product Development, R&D and Packaging leadership is participating on corporate committees to help ELC drive corporate responsibility efforts across all brands.

Most R&D resources will remain on-site in Blaine, facilitating their ability to work closely with Aveda BEST members, especially Global Marketing and Global Product Development. The changes are expected to increase Aveda's ability to create innovative products in all categories and strengthen the brand's leadership position in the industry.

AVEDA'S APPROACH TO PRODUCT DESIGN AND DEVELOPMENT

Aveda's approach to responsible product design and development aims at combining sound strategy with sustainability. By being very selective in the projects we pursue, we strive to maximize the returns on development resources and minimize complexity resulting in fewer, bigger launches that are good both for the business and the planet. This "innovation sufficiency" approach requires rigorous project screening meetings where BEST members seek to determine:

- Is this a compelling need of guests and/or professionals?

- How can Aveda bring a solution that is holistically preferable to any substitute?
- What is the difference we can bring for the benefit of guests, professionals, key stakeholders and the planet?

Seeking this Aveda difference allows us to maximize product differentiation, which in turn contributes to success in the marketplace and reinforces our commitment to sustainability as a source of innovation.

A CASE STUDY: INVATI™

Invati™ solutions for thinning hair is a new product line launched during FY 2012, which has been extremely popular with Aveda guests and professionals.

Thinning hair is a compelling global concern cited by 1 in 4 consumers. The need has persisted despite many products introduced in this category in recent years, suggesting that there is a significant demand. Aveda’s market research confirmed this fact and also that consumers are concerned with the chemicals used in current thinning/hair loss solutions and would prefer more natural alternatives.

Aveda’s approach was to seek out unique botanically sourced ingredients that would provide the efficacy that people were seeking. To do this we looked

to both Aveda’s 30+ years of experience with botanicals and to the Ayurvedic tradition in India seeking potential ingredients that would reduce hair loss from breakage and strengthen hair. Years of experimentation and testing led Aveda to develop a system consisting of a shampoo using a wintergreen-derived salicylic acid ingredient, a thickening conditioner with an amino acid derived from sugar beets and soy protein. Key to the system, Scalp Revitalizer employs a complex of ingredients used in the Ayurvedic tradition, including turmeric and ginseng.

As a part of the overall development and marketing process we focused on the Ayurvedic inputs to the products and on an Indian supplier of turmeric and several other key ingredients. Nisarga, our partner, is a supplier of organic ingredients in the Indian state of Maharashtra, an active proponent of organic farming in India, and well-aligned with Aveda’s Mission commitments. As a part of the relationship, Nisarga agreed to extensive due diligence on its business practices including an audit of its environmental and social performance by IMO (Institute for Marketecology in Switzerland). Based on the initial audit Nisarga implemented many operational improvements that were recommended by IMO and

subsequently received “For Life” certification.

In addition to working with Nisarga to enhance business practices, Aveda also sought to help improve the lives of people living in neighboring communities who were the primary source of labor on the Nisarga farms. After a community needs assessment by Global Greengrants Fund, Aveda’s global Earth Month partner, Aveda funded a community water system in neighboring Umbari that greatly improved community access to safe drinking water and reduced the time burden of water collection on community residents. (See p. 68 for more information on this project.)

To further authenticate both the quality of the products and packaging as well as Aveda’s responsible business practices, we submitted the Invati™ product line for Cradle to Cradle® (C2C) certification by McDonough Braungart Design Chemistry (MBDC) and were pleased to receive it for all three product-package combinations in the system. This is a further step in Aveda’s more than 10-year commitment to C2C principles, which has been discussed in prior reports and which is summarized at aveda.com/discoveraveda, where the recent introduction of the independent Cradle to



Cradle Products Innovation Institute (C2CPH) is also discussed. It will be the future source of C2C certifications and recertifications for select Aveda products. (Four Aveda products: Aveda Men Pure-Formance™ Shampoo and Conditioner and Smooth Infusion™ Shampoo and Conditioner were recertified by C2CPH in FY 2012, and all will be recertified by C2CPH in FY 2013 and beyond.)

The Invati™ process is the model for Aveda's approach to product development:



- First — identify a compelling need in the marketplace that is not currently being met.
- Second — identify naturally derived ingredients that can genuinely meet the need, drawing on Aveda's extensive experience with plants as well as traditional knowledge, such as in the Ayurvedic tradition.
- Third — find a supplier(s) that can provide key ingredients consistent with Aveda's commitment to its Mission.
- Fourth — assure that the benefits of the business relationship are shared with the broader communities that contribute to its success through their work.
- Fifth — seek third party confirmation for Aveda's environmental and social practices as well as those of key suppliers.

The extent to which this model is implemented will vary depending on the product that is being developed, but for major innovations — either new product lines or updating of key existing products — it is the benchmark going forward.

PRODUCT FOOTPRINT ASSESSMENT

In 2011, we undertook an evaluation of the carbon and water life-cycle footprints of nine products in a cross-section of categories with the goal of

gaining a better understanding of what drives each footprint, the relative significance of different product attributes, and developing a tool to guide future product design and development.

Working with a French consultancy, PurProject, we evaluated products using Aveda specific data (e.g., for some manufacturing processes) and published standardized data (primarily for ingredients). Although we did not have extensive information about some aspects of our supply chains (e.g., transportation of ingredients), we consider the results to be reasonable estimates for Aveda's products that provide a good understanding of the relative contributions of different product-package attributes to carbon and water footprints. We are now beginning to incorporate this information into the planning process for new product development.

Continued on p. 35.



AVEDA KEY PRODUCT ACHIEVEMENTS 2008-2012

YEAR	ACTION/ACHIEVEMENT	RESULT/SIGNIFICANCE/DATE
2008	New preservative developed from cassia oil-derived benzoic acid.	Suitable for sensitive eye-area products as a paraben replacement.
2009	Silicone replacements developed using sugar-derived propanediol.	
	14 C2C certification reviews — 7 products and 7 packages.	7 product package combinations received C2C gold/silver (product-package) certifications from MBDC.
2010	All parabens or diazolidinyl urea or formaldehyde donors are no longer used for preservation of products.	Multi-year total of 435 modified or new formulae including 73 paraben reformulations and 39 diazolidinyl urea containing reformulations.
2011	Continued testing to replace synthetic polymers such as PVP in styling products.	Identified a hydrolyzed corn starch that works well. Algae derivative identified that may potentially replace PVP.
	2 C2C new certification reviews (Invati™ Shampoo and Conditioner) and 6 existing certifications renewed.	8 C2C certifications by MBDC current in FY 2012.
2012	Developed a program with the University of Minnesota to identify local/native plants that can work in Aveda products.	Goal is to source locally to reduce supply chain footprint.
	Introduction of the Stress-Fix™ product line of 4 Ecocert-certified organic products.	Ecocert certification of the Blaine facility and key suppliers helped to enable this.
	Invati™ Scalp Revitalizer C2C certified; Dry Remedy™ certifications discontinued.	7 C2C certifications, 3 by MBDC and 4 by C2CPH (see p. 28-30) current in FY 2012.

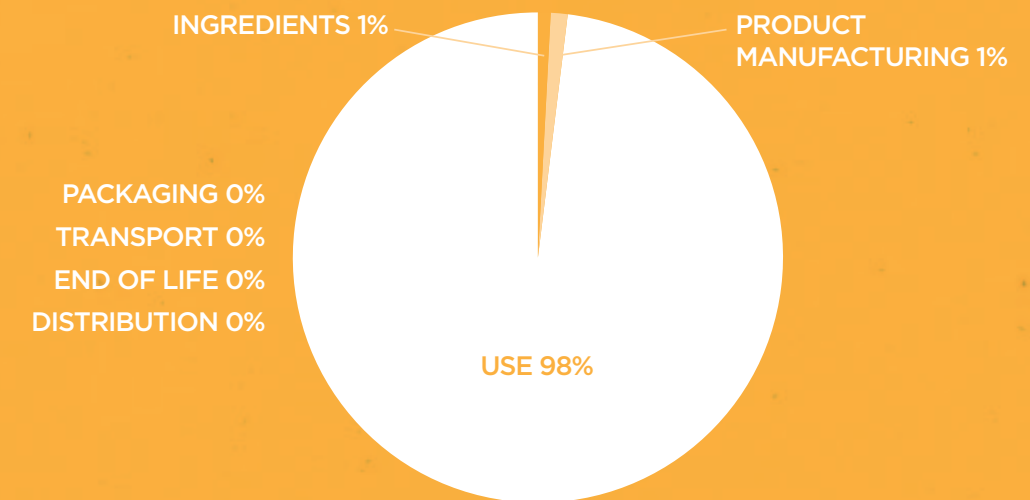
AVEDA PRODUCT	CO ₂ EQ EMISSIONS PER PRODUCT (including package)	CO ₂ EQ EMISSIONS PER ML OF PRODUCT	WATER CONSUMPTION PER PRODUCT (including package)	WATER CONSUMPTION PER ML OF PRODUCT
Smooth Infusion™ 100 ml	572 g	6 g	7L	67 ml
Shampure™ Shampoo 250 ml	550 g (29.7 kg)*	2 g (119g)*	not included	46 ml (916 ml)
Damage Remedy™ Shampoo 250 ml	657 g (29.8 kg)*	3 g (119g)*	14L	56 ml (931 ml)
Light Elements™ Smoothing Fluid 100 ml	431 g	11 g	54L	136 ml
Control Force™ Firm Hold Hair Spray (Domestic) 258 ml	2,703 g	10 g	42L	164 ml
Control Force™ Firm Hold Hair Spray (Int'l) 300 ml	3,268 g	11 g	44L	146 ml
Botanical Kinetics™ Hydrating Lotion 150 ml	592 g	4 g	8L	56 ml
Green Science™ Firming Eye Creme 15 ml	395 g	26 g	8L	500 ml
Chakra™ 4 Balancing Body Mist 110 ml	601 g	15 g	20L	262 ml

*Numbers in parentheses include consumer use.

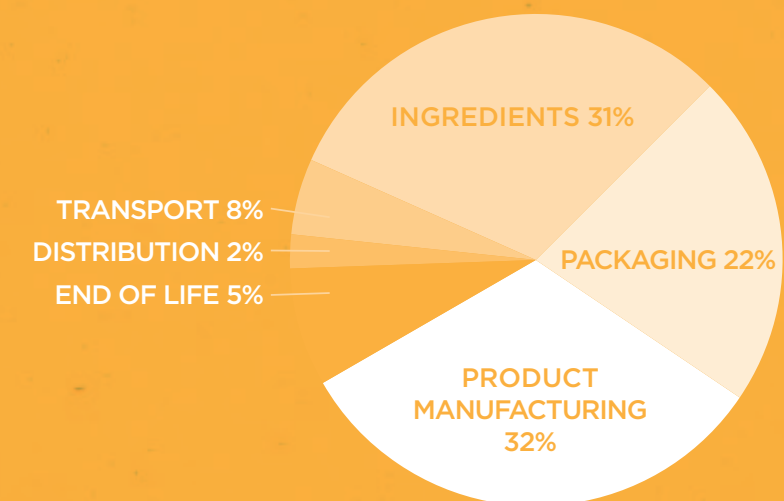
CARBON FOOTPRINT ANALYSIS

Damage Remedy™ Shampoo 250 ml

WITH CONSUMER USE
29,8 kg CO₂ (119 g CO₂/ml)



WITHOUT CONSUMER USE
656 g CO₂ (2,6 g CO₂/ml)



AVEDA KEY PACKAGING ACHIEVEMENTS 2009-2012

YEAR	ACHIEVEMENT	IMPORTANCE
2009	7 products receive C2C certification from MBDC on packaging.	Supports our commitment to responsible packaging.
	Increased the PCR content of folding cartons by 20%.	Increase in use of recycled pulp.
	Increased PCR content in saleable tubes from 35% to 45%.	Helping to create demand that may drive a tube recycling stream.
2010	Earth Month Light the Way™ Candle moves to glass from repurposed wine cooler bottles.	For the first time Aveda uses repurposed glass for candle containers.
	2010 - Botanical Kinetics™ moves from green frosted glass to 100% PCR PET.	Significant reduction in package weight and increase in safety in product use.
	55.54% (1,981,803 kg) recycled content used in product packaging.	Elimination of need for comparable quantity of virgin materials.
2011-2012	Increased PCR content in tubes to 66%.	Continuing innovation in a challenging resin.
	Integrated color into 100% PCR in Invati™ and Stress-Fix™ lines.	Greatly increases the ability to use PCR packaging in designing attractive containers.
	60% of all packaging has recycled content.	Further reduction in the need for virgin packaging materials.
	Recycled content caps from caps program on hair color, samples, stylist gifts.	Expanded use of resins from the caps recycling program.
	Pilot packaging take-back program tested in one sales region.	Logistics partner — g2 Revolution — has found markets for 98%+ of recovered materials.
	3 Invati packages receive silver C2C certification by MBDC.	Important learning for packaging improvement through certification process.

The nine products evaluated are shown on p. 32 with their carbon and water life-cycle footprint results.

The results provide Aveda product and package developers with a better understanding of the carbon and water footprints of different types of Aveda products, different formulae within a product category and where the significant opportunities for improvement may lie:

- Shampoo footprint impacts are due primarily to consumer use; formulae variations result in relatively minor differences in impacts.
- A small amount of product relative to the volume of packaging (Green Science™ Firming Eye Creme) results



- in a relatively high carbon footprint per ml of product.
- Glass packaging (Chakra 4) contributes to a relatively high water footprint for a very small product, as does the relatively large package compared to product for Green Science™ Firming Eye Creme.
- Apart from consumer use of shampoos, variations in water footprints across products are related to differences in ingredients and packaging, as the manufacturing footprint is fairly consistent across all products.

of the carbon and water footprints presents both a challenge and an opportunity. The challenge is to develop alternative ways of providing customers the benefits of shampooing and conditioning hair with less or even no water, and the opportunity is to dramatically decrease the brand's total environmental footprint. The footprint work in conjunction with supplier surveys and ingredient footprint evaluations (see p. 32) provide further impetus to ongoing research in delivering high-performing, Mission-aligned products by Aveda's Product Development team.

AVEDA'S RESPONSIBLE PACKAGING

Aveda's ultimate vision for sustainable packaging is a C2C packaging system that leaves



The finding that consumer use is responsible for the major share of shampoo products' carbon and water footprints (p. 32 and also confirmed in life-cycle studies of other shampoo products) is responsible for the majority



no trace. Key achievements are summarized on the table on page 34.

The last few years have seen several challenges arise that complicate Aveda's commitment to ongoing sustainable packaging leadership. The first is the need to translate product information into numerous languages to meet various regulatory requirements. Lack of room on several existing package sizes for the additional information has led us to increase the amount of packaging solely to meet global regulatory requirements. Second is that travel-size

bottles (for which we have had increasing demand due to air travel restrictions) sometimes fall through the conveyor belt screens in recycling facilities and end up in the trash rather than being recovered and reused in the appropriate resin stream. We don't know the extent of this challenge but it is an interesting case of "unintended consequences" of trying to meet a customer need.

**CRADLE TO CRADLE®
CERTIFICATION LEARNING**

Aveda continued our commitment to C2C principles with the certification of the Invati™ line, while other certifications were

discontinued, including Dry Remedy™ Shampoo and Conditioner (scheduled for relaunch in FY 2014) and Green Science™ Firming Face Creme (withdrawn from the market for reformulation). As was the case in earlier certifications, the Invati™ packaging was certified at a lower level (silver, rather than gold) than the companion products.

Aveda's ability to fully understand the reasons for the lower level packaging certifications is limited by conditions of the certification process itself. Aveda's packaging is supplied by independent vendors who operate in a





highly competitive industry. As a result, they are understandably frequently very hesitant to disclose proprietary information. The certification process for packaging under these competitive conditions requires that the suppliers sign non-disclosure agreements directly with EPEA (the certifying organization in Germany) so that EPEA can evaluate and rate the components. Aveda then receives a general summary of the packaging and ratings from EPEA, which does not disclose exactly how specific ingredients (as opposed to formulae) were evaluated.

We do know that inks and coatings tend to be the most problematic aspects of the packages. Aveda continues to have discussions with suppliers about alternative inks and coatings.

We have been able to use what we can infer from the results to direct future package development and thus reduce the probability of adverse ratings in future certifications.

PACKAGING MATERIALS EVALUATION

In the 2009-2010 report (p. 30) we discussed the idea of developing a Mission-Aligned Packaging Review (MAPR) process similar to the Mission-Aligned Ingredient

Review (MAIR) process implemented with EPEA several years ago. We have since decided that this is not practical due to the proprietary nature of much of the information that would be needed and the understandable reluctance of suppliers to disclose such information, even under confidentiality agreements. We will continue to submit packages for C2C certification to learn how well we are doing in improving our overall packaging and continue to encourage our suppliers to replace the most problematic ingredients or, at a minimum, not propose them for Aveda packages.

Our hope is that as the broader industry focus on sustainable packaging continues to gain momentum, pressure for improvements will drive the industry in that direction regardless of proprietary concerns.

PACKAGING STEWARDSHIP

Aveda's Recycle Caps with Aveda program entered its fourth year during the reporting period.

Approximately 1,700 schools are actively participating as are 100+ other business partners. At the end of FY 2012, we had collected over 100 million caps and we continue to extend the use of caps with high PCR

content to additional products as noted previously. During FY 2012, Aveda limited further direct expansion of the program, but it continues to be viable and active.

As noted in our 2009-2010 report (p. 30) we are in the process of refocusing our packaging stewardship commitment beyond the caps program to Aveda packaging that is not easily recyclable in municipal recycling programs.

While the caps program has been very successful in meeting its goals of encouraging polypropylene recycling in community programs (a number of municipalities have added this resin to their collection programs in recent years) and promoting recycling among school children, we know that very few of the caps that are recycled are actually those that Aveda has put into the packaging stream — the vast majority have been beverage container caps.

To broaden our focus we implemented a pilot packaging "take-back" program in Colorado, the goal of which was to encourage our Experience Center retail and network salon guests to return packaging that they could not recycle in their local community programs. Approximately 50 locations in the state have participated, most of which were salons. The results, while limited, have been instructive. In our retail locations, we learned that some guests do appreciate the opportunity to return packages that they cannot easily recycle. In the salons and spas, the majority of the 5 tons or so of materials collected have been packaging from backbar products used in their businesses in providing beauty services to their guests, especially where local recycling is not readily available. We have gained valuable knowledge during this pilot on how to expand the program in the future. Aveda's logistics partner in this pilot — and in our planned expansion in FY 2013 — is g2 Revolution, a recycling firm based in Illinois and Ohio. Encouragingly, g2 has found recycling/repurposing opportunities

for over 98% of all the materials collected, leaving less than 2% disposed of through waste-to-energy. Based on these results as well as Aveda's ongoing commitment to rolling out a national program in the U.S. in 2013, we expect the program to begin initially in Aveda retail locations and, over time, include network salons, spas and Aveda Institutes. The ultimate goal is to collect sufficient materials to enable closed loop recycling and remanufacturing of Aveda packaging materials consistent with our commitment to Cradle to Cradle® principles. Meeting that goal will require the development of packaging systems that do not end in a landfill, so design for continued life and ease of recycling is essential.

BIO-BASED PACKAGING

Aveda is committed to innovating with biopolymers. Consistent with that commitment, we have entered into an agreement with a Mission-aligned supplier of bio-based polyethylene that will be used initially in a FY 2013 packaging launch and then expanded as opportunities arise. We are excited about this prospect and pleased to be among the leaders in this important move away from dependence on non-renewable petroleum-derived materials.





EARTH CARE

HOW CAN MORE
MANUFACTURING
HAVE LESS
IMPACT?



EXPANSION OF MANUFACTURING AND DISTRIBUTION

During the reporting period we seized the opportunity to reduce manufacturing and distribution overhead costs by utilizing unused capacity at the Aveda headquarters in Blaine, MN and at the distribution center in California by leveraging Aveda’s experience in hair care and NOGS (Natural, Organic, Green and Sustainable) manufacturing and the opportunities offered by a closer integration into the ELC Global Supply Chain (GSC). Aveda facilities began manufacturing and distributing some hair care products for Ojon, Origins and Bumble and bumble brands. While Aveda products continue to be the focus of manufacturing and distribution at these two locations, we expect these additional lines to lower the cost of overhead charged to Aveda, resulting in an

improvement of the cost of goods produced. Aveda’s cost of goods also benefited from the transfer of hair color production formerly manufactured at contract facilities into Blaine to better manage quality. This resulted in an increase of in-house manufacturing from 70% of total units in FY 2011 to 83.3% in FY 2012, with 86% expected in FY 2013.

As a result of these changes and an improving business climate during FY 2012 total production volume at Blaine increased by nearly 16% during the reporting period and the total number of units manufactured by 51%. The greater increase in number of units is due to the addition of hair color products and an increase in samples produced to support sales initiatives. The relationship of these changes to environmental performance at Blaine has

been mixed, as discussed in following sections — energy use and greenhouse gas (GHG) emissions decreased; water use increased slightly on an absolute basis, but decreased on a normalized basis; and waste and recycling trends were mixed. To illustrate trends, the charts on pages 45–46 include changes from FY 2008 to FY 2012.

ENERGY USE AND GREENHOUSE GASES

Aggregate energy use decreased by 3.4% from FY 2010 to FY 2012 and by nearly 13% since 2008, despite the significant growth in production. This is reflected in even greater decreases when normalized to both volume of production and production units. This success was the result of a consistent focus on continuous improvement throughout the system, from upgrades in the HVAC system to increased use of LED lighting to installation of more



EARTH CARE DASHBOARD

ISSUE	2008-2012 CORPORATE TREND			2008-2012 CORPORATE TREND			FAVORABLE ↑↓ UNFAVORABLE ↑↓	
	ABSOLUTE	NORMALIZED (BY KILOS)	NORMALIZED (BY UNITS)	ABSOLUTE	NORMALIZED (BY KILOS)	NORMALIZED (BY UNITS)	KEY INFLUENCES	COMMENTS
ENERGY	-12.9%	-23.8%	-37.7%	↓	↓	↓	<ul style="list-style-type: none"> • Energy efficiency initiatives • Weather • Product mix 	Ongoing improvements in energy efficiency.
GHG (WITHOUT RECS AND OFFSETS)	-7.4%	-18.9%	-33.7%	↓	↓	↓	<ul style="list-style-type: none"> • Energy efficiency initiatives • Weather • Product mix • Onsite renewables 	Ongoing improvements in energy efficiency.
WATER	6.9%	-6.4%	-23.5%	↑	↓	↓	<ul style="list-style-type: none"> • Production volume • Cleaning requirements • Water efficiency initiatives 	Ongoing monitoring of opportunities. Potential improvements in system changes.
WASTEWATER	3.0%	-9.9%	-26.3%	↑	↓	↓	<ul style="list-style-type: none"> • Cleaning requirements • Number of products and batches 	Ongoing monitoring of opportunities. Expect improvement with greater cleaning efficiencies.

ISSUE	2008-2012 CORPORATE TREND			2008-2012 CORPORATE TREND			KEY INFLUENCES	COMMENTS
	ABSOLUTE	NORMALIZED (BY KILOS)	NORMALIZED (BY UNITS)	ABSOLUTE	NORMALIZED (BY KILOS)	NORMALIZED (BY UNITS)		
	FAVORABLE ↑↓ UNFAVORABLE ↑↓							
MUNICIPAL SOLID WASTE	-32.2%	-40.6%	-51.5%	↓	↓	↓	<ul style="list-style-type: none"> Staffing levels Effectiveness of recycling programs 	There was an increase in FY 2012 despite good longer-term trend. Need to improve understanding of what is in waste stream.
HAZARDOUS WASTE	11.2%	-2.6%	-20.4%	↑	↓	↓	<ul style="list-style-type: none"> Returned hazardous products 	Rate holding well and will improve with continued product and ingredient innovation.
INDUSTRIAL WASTE	63.1%	42.8%	16.7%	↑	↑	↑	<ul style="list-style-type: none"> Returned products; rejected production batches resulting from program to transfer outsourced manufacturing in-house 	Increase due to new manufacturing. Will improve as new products are integrated and as forecasts continue to improve.
RECYCLING	9.0%	-4.6%	-22.0%	↑	↓	↓	<ul style="list-style-type: none"> Comprehensive system in place 	Continued overall improvement. Normalized changes need deeper understanding.

efficient equipment whenever replacements or upgrades were needed. This approach to energy management has been in place in Blaine since Aveda first moved to the facility in 1991.

At the Blaine headquarters/manufacturing site total GHG emissions were up slightly by 0.1% from the 2010 level, but down nearly 13% from 2008, reflecting a trend that began after a slight peak in FY 2007. Normalized emissions were down from the 2008 level, which was the peak level ever reached while records have been kept. (See charts on p. 42 of Aveda's 2009-2010 report for long term trends in GHG emissions.) The Aveda Institute Minneapolis (-2%) and the Midwest DC in Blaine (-11.4%) also saw decreases in GHG emissions, as did the distribution center in California (nearly -40%), despite an increase in operations that resulted from the addition of Bumble and bumble distribution in mid-2012. A solar array on the roof balanced 45% of the total emissions at that site.

Greenhouse gas emissions associated with electrical use in Minnesota locations are offset through the purchase of WindSource® electricity through the Minnesota electricity grid. In U.S. retail locations, sales offices and California distribution center emissions are offset either by the purchase of Green-e Renewable Energy

Credits or offsets through *NativeEnergy*, Aveda's partner in this activity for over ten years. Emissions associated with natural gas use are also offset through *NativeEnergy*. Aveda's offset purchases during the reporting period helped to fund the development of several new carbon reduction projects and support the ongoing operation of others including:

- A portion of the incremental funding needed for the Iowa Farms Wind Project to proceed to construction (26,592 MT of offsets that will be realized over 9.25 years).
- A portion of the incremental funding needed for the Wewoka Oklahoma Brick Factory Landfill Gas Project to proceed to construction (2,749 MT of offsets that will be realized over 8.14 years).
- A portion of the incremental funding needed for the Indiana School Wind Project to proceed to construction (1,000 MT of offsets that will be realized through June 2020).
- 15,950 MT of verified emissions reductions (VERs) from two wind energy projects in India.

These and other projects that Aveda invests in through *NativeEnergy* are Help Build™ projects that support development of renewable energy around the world by providing needed "up-front" funding. The environmental benefits from these projects are realized over a period of years rather



than immediately. By helping to enable new project development these investments support the production of increasing renewable energy over time. This is very important because greenhouse gases in the atmosphere are a long-term challenge that will require long-term sustainable solutions such as those provided by Help Build!™ Aveda donates its rights to the streams of emission offsets from these projects to Clean Air-Cool Planet (CA-CP), an independent 501(c)(3) environmental organization, to assure that they are properly accounted for.

WATER AND WASTEWATER

While water use and industrial wastewater releases increased during the reporting period, which resulted in a slight increase over the five-year trend period, on a normalized basis both have decreased.

Understanding water use in the Blaine facility is complicated because a combination of manufacturing, R&D and Aveda headquarters activities occur there and water and wastewater metering are not sufficiently granular to fully understand the contributions of different components of the operations. Since the employee population did not change dramatically during the period, it is likely that the use changes were more closely related to manufacturing activities than to domestic uses. As a part of a larger ELC Global Supply Chain initiative, all manufacturing sites monitored water use during FY 2012 as a basis for prioritizing capital plans to reduce water consumption and wastewater discharges. Going forward a better understanding of overall water use will be developed through the use of additional meters and other measures.

At Blaine, there are two major opportunities for increasing water use efficiency and reducing consumption. One is the USP reverse osmosis (RO) water system that was installed at Aveda soon after the ELC purchase as an experiment

to determine the value of using pharmaceutical grade water in production. While this enhanced the purity of products it came at the cost of a significant amount of water lost through the RO process itself. All other ELC Global Supply Chain manufacturing locations use de-ionized (DI) water. DI water achieves essentially the same quality standards as the USP system but requires much less total water (and potentially energy) to achieve them. As a result, a project is in place to evaluate the costs and benefits of replacing USP water with DI water. It is clear that the environmental benefits of reducing total water consumption would be one outcome, but there are many factors to consider and a final decision on the project has not yet been made; it is anticipated in FY 2014. While this opportunity is being evaluated, projects to substantially reduce water need within the USP RO process are underway and will be deployed in FY 2013.

As we have reported previously, cleaning has become more complex as the variety and viscosity of products have increased along with the number of batches. To address this aspect of water demand, the manufacturing team initiated the first phase of a more efficient “clean in place” (CIP) system. This system upgrade — the first of several phases — is expected to significantly decrease the amount of water and energy needed for cleaning production equipment. The system launched during late FY 2012 so the impact on overall water use was limited during the fiscal year, but early indications are very positive. Another smaller project is the reduction of water used in cooling towers by 150,000 gallons per year.

Water use at the Aveda Institute Minneapolis was down nearly 7% from the previous reporting period but has been relatively flat since 2008. Water use in the Midwest Distribution Center increased by about 7% but is down by over 20% since 2008. At the Aveda Institute, water use varies depending



on class sizes and the amount of hair washing and color rinsing that is done, whereas in the distribution center water is mostly for domestic use and varies with staff size. Neither location uses a great deal of water in comparison to the Blaine headquarters/manufacturing location, but opportunities to use water more efficiently — e.g., high efficiency toilets, flow controls — are applied where practical.

WASTE

The Blaine facilities experienced substantial increases in certain categories of wastes during FY 2011 and, especially, FY 2012, slowing or reversing a long-term trend of reduced waste and increased recycling. At the same time, corrugate recycling increased by 14% and other recycling and reuse remained constant or slightly lower on a normalized basis.

While we did see an increase in municipal waste during the reporting period, the longer term downward trend remains positive with reduction by nearly 1/3 since 2008 and higher normalized reduction rates. As a part of a broader ELC focus on waste throughout the Global Supply Chain, we have instituted a program for FY 2013 (including “dumpster dives”) to better understand our waste streams and check to see that recycling opportunities are

being maximized. We anticipate that this analysis will help determine whether the decline in the volume of recycled materials was the result of such materials ending up in our municipal waste stream or if the quantity of recyclable materials decreased. Recyclable manufacturing waste may have declined with the conversion of the Botanical Kinetics™ line from glass packaging to 100% PCR PET (an 86% reduction in total package weight) and/or be a result of increased efficiencies associated with the introduction of lean manufacturing practices. Continuation of the Aveda Blaine facility’s longstanding leadership role in recycling among all ELC facilities is an incentive to reversing the recent increase in municipal waste generation.

Increases in industrial waste since 2008 are primarily product waste in one form or another; typically test or manufacturing pilot batches, sales returns, and out-of-date products.

The introduction of hair color manufacturing at the Blaine facility, instead of being outsourced, created new employment opportunities in our home community, Blaine, and resulted in pilot and test batches that were not marketable along with some production that did not meet quality standards. As a part

of the broader ELC waste initiative a thorough analysis is underway to fully understand the significant increase in the most recent fiscal year. Hazardous waste, while increased somewhat, remains at a consistently low percentage — about 5% — of Aveda’s total waste and is primarily due to product returns such as aerosol hair sprays and products that contain alcohol. Elimination of products that must be classified as hazardous remains a driver for product innovation.

These mixed results create a challenge for both the Aveda brand and for the ELC Global Supply Chain. Aveda has a tradition of waste reduction that goes back to the early days of the company and early Ceres reporting, although this has varied over time as production has grown. Because both the brand and the corporation place a high value on waste elimination in operations, with a corporate zero waste goal set for 2020, the Operations team at Blaine and at ELC Global Supply Chain will be focusing on understanding the recent trends and reversing them. Going forward, we will be using a dashboard created for this report to monitor performance with sufficient frequency to identify and address unfavorable trends on a much timelier basis.

GREEN AND HEALTHY BUILDINGS

Mission Leader Salon Website

During FY 2012 Aveda’s store design and Earth and Community Care teams joined forces with Natural Capital Solutions in Boulder, Colorado to develop a comprehensive website for our network partners to use in constructing, remodeling and operating environmentally efficient salons and spas.

The comprehensive website includes design tips for site selection and building orientation to take advantage of natural lighting, suggestions for materials and fixtures that will minimize a business’ footprint and recommendations for energy-efficient and ergonomically correct equipment. It is subdivided based on the functional areas within a business so that owners can proceed incrementally if they are not able to undertake major changes all at once. Users can prioritize potential projects based on likely return on investment, incorporating both financial and social criteria such as improved workspace quality and employee and guest experiences.

The website is designed to appeal to the visual nature of salon and spa professionals. Information is organized in conjunction with interactive graphics that illustrate opportunities for innovations.

Aveda is committed to helping our network partners improve their places of business both as a way to enable them to attract a committed clientele and to enable Aveda to leverage its commitment through our business partners. We look forward to this website being a “win-win” opportunity for the company and the network as its use increases over time. The website is a major augmentation of the ideas and insights on environmental practices that Aveda has been sharing with the network for many years and is to become the basis for recognizing and rewarding salons and spas for environmental performance aligned with the Aveda Mission.

SUMMARY

Aveda and the Estée Lauder Companies continue to strive to reduce their environmental footprint and demonstrate that businesses can be both profitable and environmentally responsible. During the operations growth and organizational evolution that have occurred during the reporting period some challenges have presented themselves to our long-term commitments and achievements. We view these as just that — temporary challenges — but also as important learning experiences as the business is poised for considerable growth in the coming years.





COMMUNITY CARE

HOW CAN CHANGING A COMMUNITY HELP TO PRESERVE IT?



WHEN WE HELP
GIVE PEOPLE A NEW WELL WITH
CLEAN, SAFE WATER
OR SOURCE A NEW
INGREDIENT
FROM THEM, IT CAN HELP THE
COMMUNITY TO THRIVE.



EARTH MONTH GIVING increased 25% from \$3.7 million in 2010 to \$4.5 million in April 2012, and we created a new employee advisory group to help allocate Earth Month funds. Safety performance remained flat but major leadership and program changes have seen significant progress. Aveda exceeded our employee retention goal of 75%. The ELC supplier surveys were extended to Aveda-only suppliers, and Aveda developed a comprehensive sourcing-narrative-development process to assure that our communications around our supply chain relationships are up-to-date and comprehensive. We also saw a significant increase in employee volunteering.

A summary of key metrics for Community Care is presented on pages 57-58.

OUR EMPLOYEES

During FY 2011 and FY 2012, the Aveda Human Resources group was integrated more closely into the broader ELC HR function, particularly around key program elements including performance evaluation, Talent Management and training. Because of the unique attributes of Aveda's culture and commitment to the Aveda Mission, we retained some brand-specific focus, such as Mission-related performance measures and Mission-oriented communications and training for our employees. Aveda-specific employee orientation to the company and the brand are accomplished through initial employee orientation, "Experience Aveda" and "Full Circle" meetings, intranet videos, presentations and guest speakers and our monthly Information Celebration. Anyone associated with product sales also receives an in-depth training in Mission-related attributes of each product.

EMPLOYEE DEMOGRAPHICS AND RETENTION

Aveda employment has remained steady during FY 2011 and FY 2012 with a very slight decrease of total head count from 1,945 in 2010 to 1,939 in 2012. (See pages 50-53 of our 2009-2010 report for employment history.) New hires increased by 20%, reversing the significant decrease that occurred during the prior reporting period. In prior reports, we discussed several initiatives to improve employee retention that have resulted in a 22% improvement since 2008, and Aveda exceeded our 2012 retention goal of 75% (76%). Retaining part-time retail employees continues to be challenging.

Domestic employee diversity data reported in our 2009-2010 report (p. 52) are not updated here because the overall pattern has not changed, although we have seen increases in the percentage of employees in three categories — African American, Hispanic and Asian/Pacific Islander. Increasing the diversity of the employee population remains a major focus for Aveda and for ELC and a

number of initiatives are planned for FY 2013 to enhance those that are currently in place. (See 2009-2010 report, p. 53.) For example, working with consultants, Aveda has established an Inclusion and Diversity Task Force of 17 Aveda employees of diverse backgrounds who have established a three to five year Inclusion and Diversity Action Plan that will enable Aveda to further its Inclusion and Diversity programs. Aveda has partnered with ELC to establish Employee Resource Groups (ERGs), groups of employees who voluntarily come together to network, enhance their professional development and brainstorm ways to enhance our business. ERGs are usually formed around a shared social identity, e.g., race or sexual orientation.

COMPENSATION AND BENEFITS

There have been no major changes in compensation and benefits since the improvements in the bonus program discussed in our prior report (p. 53). Despite important progress (a 46% reduction since 2010) we have not yet fully achieved the goal of zero employees with compensation below the living wage — defined as "income required to meet basic needs such as rent, food, clothing... without government assistance," but Aveda continues to offer a highly competitive compensation and benefits package to all employees working at least thirty hours per week. Our benefit and bonus programs continue to exceed industry standards when compared to other companies.

WELLNESS

In FY 2012, we expanded the wellness program outreach to retail and field sales staff through e-mail and the Aveda Intranet. Information includes healthy eating strategies, nutritional recipes, smoking cessation information and help setting achievable wellness goals.

In addition, during FY 2012 wellness opportunities began to be offered on a monthly basis at the Aveda Institute Minneapolis, including facilitated stretching sessions and wellness presentations

COMMUNITY CARE DASHBOARD

ISSUE	2008-2012 AVEDA TREND				↑↓ FAVORABLE ↑↓ UNFAVORABLE	
	2008-2012		2010-2012		KEY INFLUENCES	COMMENTS
NUMBER OF EMPLOYEES	-9.0%	▼	0.0%	—	• Business consolidation during recession.	Improving business in late FY 2012, and future plans will support additional employee growth.
NUMBER OF NEW HIRES	-32.0%	↓	20.0%	↑	• Business consolidation during recession.	The significant drop between FY 2008 and FY 2010 was reversed with increased hiring in FY 2011-FY 2012.
RETENTION RATE	22.0%	↑	2.0%	↑	• Major focus between FY 2008 and FY 2010 through training and coaching for success.	Coaching model remained strong. Retail averages significantly above national averages.
EMPLOYEES BELOW "LIVING WAGE"	NA	—	-46.0%	↓	• Operation in one challenging market sold.	A few markets remain challenging.
INTERNAL PROMOTIONS	14.0%	↑	6.0%	↑	• Rate revived between FY 2008 and FY 2010.	Rate is sustained during current period.
TOTAL EMPLOYEE TRAINING HOURS (DOES NOT INCLUDE SAFETY TRAINING)	9.0%	↑	95.0%	↑	• Reorganization of function and leadership transition led to significant decline in FY 2010. Has been regained.	Integration of training with ELC part of overall integration of HR.

COMMUNITY CARE DASHBOARD

ISSUE	2008-2012 AVEDA TREND				↑↓ FAVORABLE ↑↓ UNFAVORABLE	
	2008-2012		2010-2012		KEY INFLUENCES	COMMENTS
TOTAL INCIDENT RATE (TIR)	32.0%	↑	13.0%	↑	• Loss of leadership focus for a period.	New EHS leadership and reinvigorated programs showing progress late in period.
DIRECT AVEDA GIVING (PRODUCT DONATION NOT INCLUDED)	19.0%	↑	0.0%	—	• Product donation variability results in fluctuations in totals.	Product donations will stabilize at a planned level for program consistency.
EARTH MONTH GIVING	64.0%	↑	24.0%	↑	• Significant increases in participation by salon/spa network partners.	More local partners have helped increase participation rates.
VOLUNTEERING HOURS REPORTED	437.0%	↑	90.0%	↑	• Major emphasis on encouraging volunteering and reporting hours.	Many employees volunteer but do not report hours.

EMPLOYEE RETENTION 2008-2012

CATEGORY	2012 INDUSTRY AVERAGE RATE (%)*	FISCAL 2008 AVEDA RATE (%)	FISCAL 2010 AVEDA RATE (%)	FISCAL 2012 AVEDA RATE (%)
FULL-TIME RETAIL	35.0	53.7	69.1	73.8
PART-TIME RETAIL	2.1	10.7	47.9	42.3
TOTAL RETAIL	15.2	30.0	58.5	57.2
CORPORATE (NON-RETAIL)	NA	84.2	82.8	82.8
CUMULATIVE RETENTION	NA	62.6	74.5	76.1



by the Wellness Coordinator. The Wellness Coordinator also works closely with Environment, Health and Safety and Manufacturing and Distribution leadership to establish daily stretching programs in all work areas. In addition, there have been many ergonomic improvements throughout the office work areas to improve overall comfort and wellness.

LEARNING AND DEVELOPMENT

During the reporting period, there were a number of major changes in Aveda's Learning and Development function and team, highlighted by new leadership. The areas of focus included:

- Coordinating Aveda employee training and development more closely with new ELC programs.
- Training and coaching of retail staff to enhance retention, improve overall business performance and increase technical knowledge.
- Encouraging and providing professional training, which is essential to the success of Aveda's business model.

During FY 2011 and FY 2012, there was a strong focus on internal employee training, with Aveda holding 95 trainings in FY 2011 with 2,041 participants and 39 trainings in FY 2012 with 664 participants. Two new

programs were introduced, beginning with High-Touch Leadership — an ELC-wide program designed to help employees in all roles improve their leadership skills and build on the "Leading from Every Chair" concept that Fabrizio Freda, ELC CEO, personally endorsed and trained on around the world. The second program, Change Leadership, utilizes famed Harvard Business professor John Kotter's eight-step process to develop, implement and lead a change effort based on ELC's strategic objectives. Aveda also brought in an acclaimed sales training program, Dimensions of Professional Selling (DPS), which is

designed to enhance a company's success through better sales effectiveness, account strategy, planning and business development.

Retail training — a major focus this period — was brought to life by a dedicated team led by a highly experienced and skilled leader. Aveda's retail channels expanded significantly with the introduction of travel retail, planning for the launch in FY 2013 of Aveda products in department stores and third-party Experience Centers, which are owned by Aveda network salons/spas. A key area of focus was technical training for retail employees to help strengthen Aveda's position as the hair, skin and body care authority and reinforce relationships between Experience Centers and network salons/spas.

Two key programs for retail training are "Beyond BeLeaf" and "Talent +." Beyond BeLeaf is an annual gathering of retail leaders in our network of approximately 120 Experience Centers. Training is focused on how to improve sales, understand the Aveda brand and Mission and retain talented employees—especially part-time employees—by providing a clear path to career success. Talent + directly relates to these training goals, as team leaders are taught the top three talents that each employee needs to ensure her/his success. Then they are given coaching, training and a guide to help them be effective leaders and retain top talent. The increased retention of part-time retail employees is strongly influenced by this program.

Finally, professional and technical training also expanded significantly during this period. Hands-on technical training is essential to helping Aveda's global network of 8,000+ salons/spas succeed in their businesses and to inspiring 35,000+ network professionals to achieve technical mastery — both of which directly enable Aveda's continued success. Aveda professionals continue to seek out professional and technical training, which is demonstrated by the network's outstanding participation in

FY 2011 and FY 2012, when 59,365 network professionals attended more than 525,000 hours of training, many attending more than one session.

SAFETY PERFORMANCE

As we noted in our last report, the impressive safety performance improvements that had been underway for over a decade leveled off and incident rates increased somewhat. This continued during FY 2011 and FY 2012, resulting in a period of disappointing results (p. 60) despite a variety of initiatives to regain the momentum that characterized much of the 2000s.

Despite the challenges with only slightly decreasing incidence rates at Aveda facilities during the reporting period, safety programs at Blaine continued to receive external recognition with the renewal of the Environmental and Safety Management System (ESMS) certification to the ISO 14001 and OHSAS 18001 standards and the OSHA Voluntary Protection Program (MNSTAR) recertification of both the manufacturing and distribution sites.

Changes in the Environment, Health and Safety program at the Blaine site began in late FY 2011 and were completed in early FY 2012, and the implementation of the Accident Reduction Strategy developed by the ELC Global Supply Chain team in North American locations began to show major improvements in overall performance toward the end of FY 2012. These have continued into FY 2013. The efforts have been brought under the banner of "Actively Caring" and include:

- A major expansion of the existing Behavior-Based Safety (BBS) program.
- A focus on improving ergonomics and worker wellness through stretching programs.
- Slip, trip and fall reduction and housekeeping, which are closely aligned with LEAN 5S.
- Post injury care including a third-party provider (Medcor).



The site and corporate leadership have promoted increased accountability across the entire management team, improved communication on safety conditions for all employees, coordinated the involvement of senior management, especially the Aveda Brand President, in status reports and all-staff information sessions and helped establish weekly Safety Alerts across all ELC locations that increase awareness of potential incidents.

The BBS program has been in use at the Blaine site for nearly a decade, albeit with varying degrees of intensity over time. Reestablished as the lead safety improvement program across ELC, it has grown more successful in improving overall performance with the development of leadership teams composed of those who work on the manufacturing and distribution floors rather than supervisors and managers, and other program enhancements.

The net result is greater accountability and leadership that engages more people in the process of implementing safety improvements and performance. It is an example of how ELC's commitment to promoting "Leading From Every Chair" generates results. Workplace safety has always

been important at Aveda; it now has a much higher profile and is consistently reinforced by senior leadership.

Aveda's safety vision is zero incidents, which will require constant diligence and reinforcement to build on newly regained momentum.

OUR SUPPLIERS

Creating and maintaining relationships with Mission-aligned suppliers has been a key element of Aveda's commitment to our supply chain and our Mission for at least 20 years. During FY 2011 and FY 2012, ELC's supplier and ingredient screening process was extended to "Aveda-only" suppliers (certain suppliers of essential oils and botanical ingredients that don't supply ingredients for other brands) and complements an enhanced Aveda due-diligence process which has been established to assure supply chain practices and brand communications are aligned and verifiable.

Supplier and Raw Materials Surveys

In our 2009-2010 report (p. 63), we described the evolving ELC supply chain relationships that included surveys of suppliers' environmental and social performance, "Supplier Code of Conduct" audits of all suppliers and surveys on specific

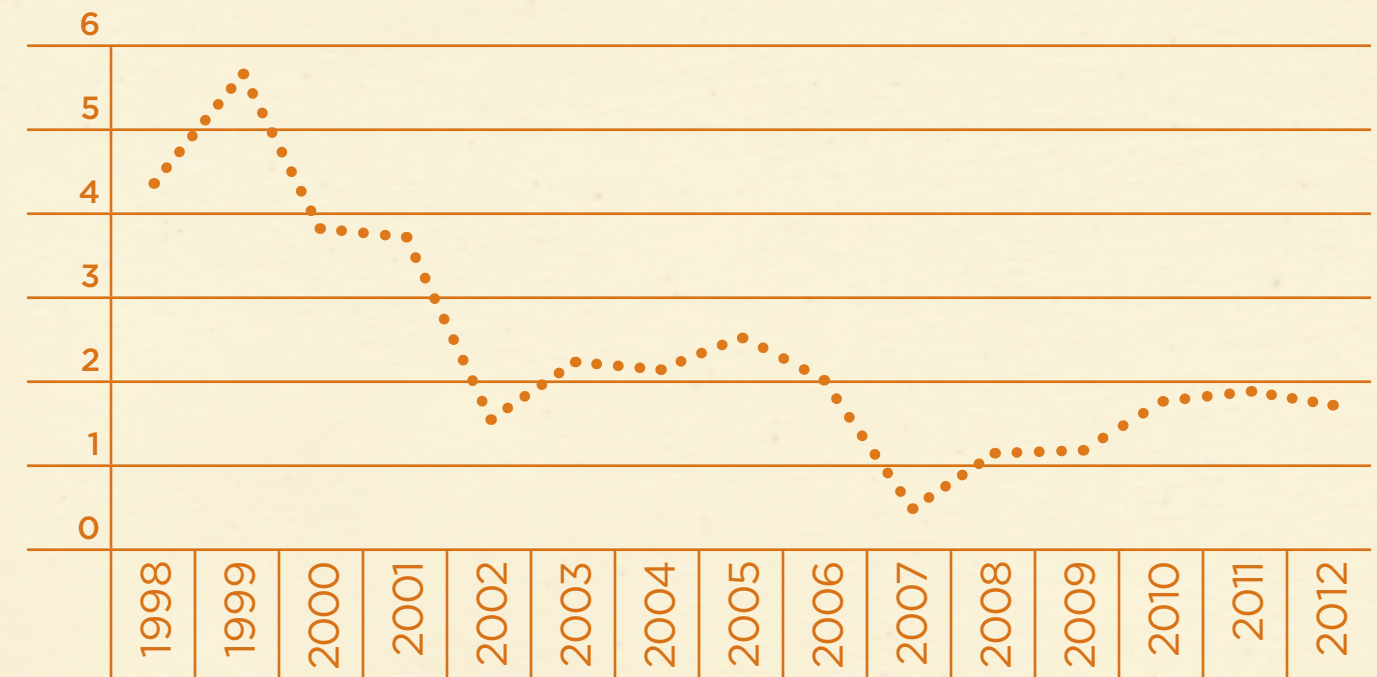
environmental (e.g., carbon footprint) and social (e.g., labor practices, worker safety) attributes of suppliers of selected raw materials. Suppliers that are exclusive to Aveda began to be included in FY 2012, with results due by mid-FY 2013. These results are not fully available at this time and will be reported in the next update.

Preliminary information from suppliers that provide raw materials to multiple ELC brands is being used to establish business process improvements that ELC will require of all suppliers to remain qualified in the supply chain. New suppliers and their raw materials are subject to an ELC "Green Chemistry" screening, designed to raise the bar of environmental and social performance on all suppliers and ingredients. More information about ELC's Green Chemistry program can be found in the Estée Lauder Companies' 2012 Corporate Responsibility report (www.elcompanies.com).

Aveda's Sourcing Narrative Development Process

Because of the importance of key botanical ingredients to the performance and marketing of individual products and to the integrity of the brand, Aveda decided in FY 2011 to strengthen our

AVEDA TOTAL INCIDENT RATE



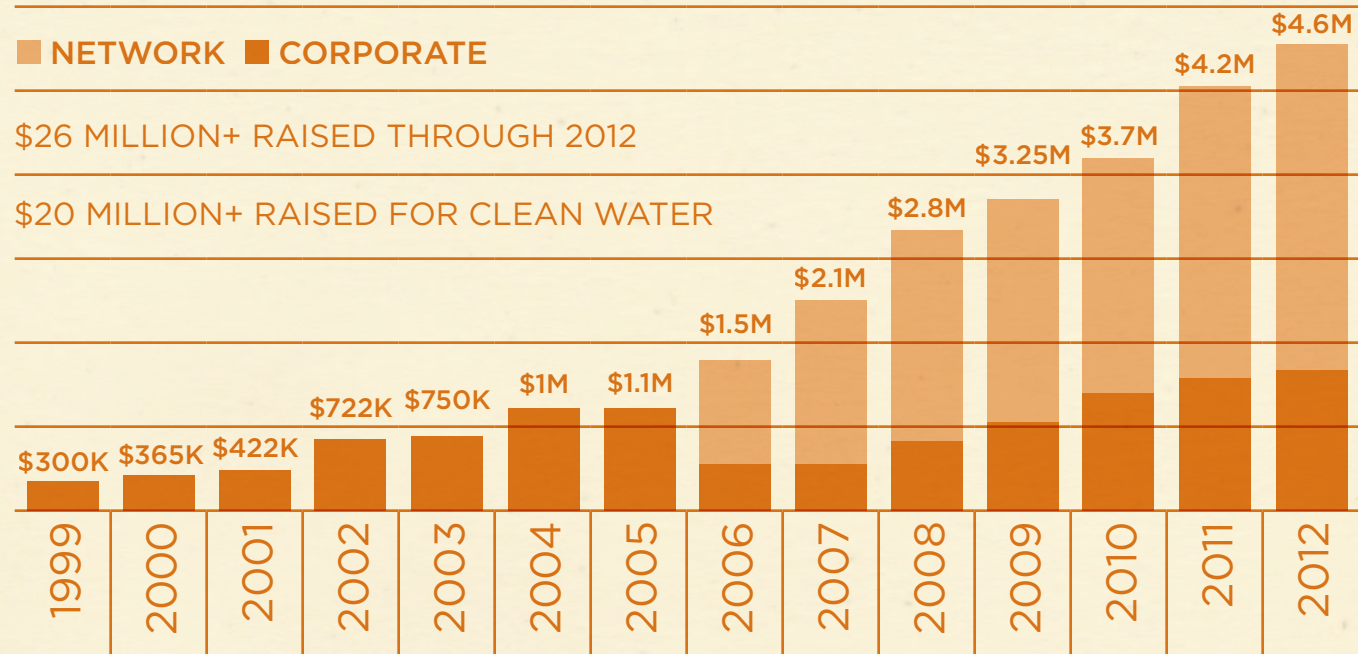
*Total Incident Rate calculated as per 100 workers, per calendar year, for the Corporate/Manufacturing/R&D employees in the Blaine facility.

AVEDA AND NETWORK GIVING COMPARISON FY 2010-2012

PROGRAM	2010	2012
EARTH FUND GRANTS	283,400	91,966
EARTH MONTH	3,700,000 (1,200,000)*	4,600,000 (1,409,520)
BREAST CANCER AWARENESS	322,352	280,232
SPONSORSHIPS	24,000	2,000
PRODUCT DONATIONS (RETAIL VALUE)	2,499,541	759,287
EMPLOYEE VOLUNTEERISM (\$ VALUE)	20,631	41,036
EXPERIENCE CENTERS (SERVE FROM THE HEART GRANTS)	31,300	29,500
TOTAL GIVING AVEDA & NETWORK	6,881,224	5,804,021
TOTAL DIRECT AVEDA GIVING**	1,881,683	1,854,254

*Number in parentheses is direct Aveda giving. **Without product donations.

AVEDA'S EARTH MONTH ACHIEVEMENTS



EMPLOYEE VOLUNTEERISM

YEAR	TOTAL HOURS	TOTAL VALUE	TOTAL EMPLOYEES
FY 2009	848.75	\$17,187	124
FY 2010	989.5	\$20,631	117
FY 2012	1,883.25	\$41,036	222

system for developing and maintaining supply chain relationships and how we communicate these to our stakeholders. This enhanced approach, which we call the “Sourcing Communication Strategy and Process” and which parallels our product innovation and development processes, reflects increasing threats to these ingredients due to limited amounts of responsibly farmed or harvested land, impacts associated with climate change and water scarcity and increasing industry demand. It is designed to allow the company to maintain up-to-date information on changes in the ingredient supply chains and market conditions and to promote clear communication and transparency about ingredient sourcing and potential changes to supply conditions. Key elements of the evolving process include:

- Development of a portfolio of potential ingredients based on both their active properties and potential usefulness in Aveda products.
- Identification of potential suppliers who are aligned with the Aveda Mission and will meet ELC supplier and quality criteria.
- Identification of potential alternate sources if a preferred supplier cannot meet Aveda’s needs (e.g., in case of a crop failure).
- Thorough third-party due-diligence of suppliers’ (and alternates’ if needed) environmental and social practices.
- Development of appropriate “benefit sharing” approaches to assure that providers of the selected ingredients are being responsibly cared for as part of the overall relationship.
- Development of narratives and communications about the relationship that are accurate



THE 20-YEAR YAWANAWA RELATIONSHIP

The end of FY 2012 marked the 20th anniversary of Aveda’s relationship with the Yawanawa community in Acre State in Brazil. Initially conceived as a supplier relationship, it grew far beyond that over the years as the community — with the support of Aveda and others — has renewed its culture, strengthened its title to ancestral lands and improved community health and education. The Yawanawa have historically supplied Aveda with urukum (annatto), a key ingredient in a makeup line and a colorant for other products. Supplies have fluctuated substantially and been interrupted at times over the years. Through it all, the partnership has remained and Aveda continues to be involved with the community’s development.

As we enter the third decade of this relationship, both the Yawanawa and Aveda are looking for a new approach that would promote sustainability in the community. We hope to announce a joint strategy in late 2013 or 2014.



representations of the current relationship and its benefits to all involved parties.

- Ongoing, regular review of the supply chain circumstances to assure that any changes that may occur (e.g., the need to find an additional source of supply if demand for a product exceeds an initial supplier's ability to meet ingredient needs) are quickly and accurately reflected in updated communications.

Aveda intends to monitor the evolution of the implementation the Nagoya Protocol agreed to by many countries under the global Convention on Biodiversity (CBD) and update this process as appropriate to assure alignment of our sourcing practices with developing regulations and practices around the world.

AVEDA GIVING

While Aveda's signature Earth Month program grew by nearly 25% during the reporting period, total giving decreased by 15%, due to a significant decline (-70%) in product donations (p. 63).

The decrease in product donations was relative — the result of an unusually high donation in FY 2010 that resulted from an inventory adjustment opportunity, rather than a reduction in Aveda's commitment to donations. Excluding product donations, giving by Aveda and our network partners participating in Earth Month increased 15% from approximately \$4.4 million in 2010 to \$5 million in 2012. Aveda's company contribution excluding product donations decreased slightly during this period.

EARTH MONTH

Growth in Earth Month giving has been substantial over its 14 years of existence, rising more than tenfold from \$300,000 in 1999 to \$4.6 million in 2012 (p. 63). Much of the growth was initiated in 2007 when we shifted the focus on Earth Month to the protection of water resources around the world, which sparked greater interest among the independent businesses in the Aveda salon and spa network. The importance of the engagement of the Aveda network is illustrated on the chart on

page 64. More than two thirds of the total funds raised is the result of network activities. Aspects of the Earth Month program that contributed to the growth included:

- *Catwalks for Water* — fashion shows that provided opportunities for network partners to support a good cause while showing off their craft and potentially attracting new guests to their businesses.
- *Going Local* — Increasing the number of Earth Month local partners, thus increasing the number of beneficiaries, which helped to encourage more network participation.

Other key attributes of Aveda's giving during the reporting period include:

- *Serve from the Heart* — Aveda established this program to encourage all retail Experience Centers to engage with their communities through donations and volunteering, with the goal of reinforcing the Earth and Community

Care commitment of the company as a whole and of each community store. In FY 2011 and FY 2012, we restructured the program to encourage collaboration among stores within a region, developed additional partnerships aligned with Aveda's Mission and made larger and potentially more useful contributions to nonprofit partners.

- Aveda stores in the New England area directed a grant to the Woonasquatucket River Watershed Council to support the organization's "Clean Day on the Greenway" event and other volunteer activities.
- Aveda stores have collaborated in Los Angeles to support Friends of the Los Angeles River's Great Los Angeles River Cleanup event. In addition to the grant supporting this organization's work, store employees participate in ongoing volunteer events.



- *The Breast Cancer Research Foundation®* — Aveda has continued to support the Estée Lauder Companies' Breast Cancer Awareness Campaign through a donation to The Breast Cancer Research Foundation® for cruelty-free research. For several years a portion of the proceeds from Pink Ribbon Hand Relief™ sales have been used to fund a research team at Columbia University's Mailman School of Public Health. Over the years this team of women researchers has studied breast cancer in human populations, looking at genetic and environmental factors that affect breast cancer risk and susceptibility. The

research most recently funded by Aveda is studying biomarkers in adult women and children to better understand when breast cancer susceptibility begins.

- *Donor Advised Fund Giving through Greengrants* — Aveda has supported a number of water projects in key sourcing communities through the Donor Advised Fund (DAF), established with Global Greengrants Fund (Greengrants) as part of our Earth Month program. Starting in 2008, Aveda began working with a long-time essential oil supplier to develop projects that would help improve access to clean drinking water for our sourcing communities in southeastern Madagascar. Villagers in this region faced extremely limited access to drinking water, and had to use unsafe water from a nearby river that resulted in many cases of illness and disease. Aveda has now made three grants through our DAF to the Association School in Madagascar to construct solar powered water pumps, tanks and several taps throughout three villages in this region. The new drinking water systems mean that over 4,000 people have access to safe and clean water closer to home. Aveda has also used our DAF to fund

a project that improved access to clean drinking water for the community of Umbari, India, where the turmeric from our Invati™ product line is grown. Working in close partnership with our ingredient supplier (Nisarga), Greengrants and a locally based NGO called AWARD, Aveda funded a Greengrants project that rebuilt and repaired two water systems that had been in disrepair. The improved water systems provide clean water to 750 people in the village of Umbari and eliminate the heavy burden women endured of spending six to eight hours a day fetching water during the dry summer months.

- *Other noteworthy environmental grants include:*
 - The Will Steger Foundation — to support the Summer Teacher Institute for Climate Change Education.
 - The Nature Conservancy in Minnesota — to support northern forest restoration and native grassland protection work.
 - Minnesota Zoo Foundation — to support free public access to the Butterfly Garden.
 - Nice Ride Minnesota — to support the Twin Cities bike sharing program.

VOLUNTEERING

Aveda's Activism for the Earth program is built on the idea that the power of individual actions can have far-reaching impact within our communities. Employees are encouraged to use their time and talents in support of nonprofit organizations that hold a personal interest to them. Recognizing that volunteerism results in a higher level of employee engagement as well as increased productivity, Aveda's Activism for the Earth program provides employees with a variety of volunteer opportunities throughout the year. Currently, each full-time employee is eligible for up to eight hours of paid volunteer time per fiscal year.

In FY 2012, the Activism for the Earth program showed an increase of 90% in terms of overall reported volunteer hours (1,883.25 hours in FY 2012 versus 989.5 hours in FY 2010). Overall reported participation in FY 2012 represented about 11% of our total employee base (up from only 6% in FY 2010). We have known for a long time that employees volunteer many more hours than they have reported despite our efforts to encourage them to do so. Today, employee reporting is increasing and they submit more of their paid-time-off hours, as well as more of their "above and beyond" volunteer hours, thereby increasing the numbers.

Volunteer events included removal of invasive species and river cleanups as well as sorting items at local food shelves and serving meals at a crisis nursery. As the program has grown, more opportunities have been identified and communicated.

Our R&D team members have removed invasive garlic mustard from Eloise Butler Wildflower Garden and Bird Sanctuary, the oldest public wildflower garden in the United States, for several years.

Our Global Education team has championed providing hair cuts for homeless individuals during a one-day, one-stop service event held twice a year at the Minneapolis Convention

Center. The Aveda "Champions" coordinate employee volunteers throughout the day and recruit stylists from the Aveda network as well as stylists and barbers from all over the Twin Cities, to provide hundreds of hair cuts and stress-relieving services to people who deeply appreciate the opportunities.

SUMMARY

Aveda's and our network partners' commitment to Earth and community care has grown significantly over recent years, despite challenging business conditions. Whether through Earth Month fund-raising, giving to support important environmental and social issues or individual volunteering, the passion of Aveda personnel and our business partners underscores the role of the Aveda Mission — a guiding light for a company that continually seeks to care for the world we live in.





STAKEHOLDERS

HOW CAN
SIMPLE
RELATIONSHIPS
TRANSFORM
THE WORLD?



WHEN WE FORM STRONG
PARTNERSHIPS
WITH DEDICATED NGOs,
TOGETHER WE CAN MAKE
A DIFFERENCE
IN COMMUNITIES
AROUND THE GLOBE.



IN PREVIOUS REPORTS, we have discussed many of Aveda's diverse stakeholders, our relationships with them and our mutual interests that help support our business success. Earlier (p. 20) we provided an example of the complexity and challenge of one such relationship with the United Poultry Concern over rooster feather hair extensions. In this section, we focus on our Earth Month partners, organizations that do the work of caring for the world we share and building healthier lives. Rather than simply writing checks to our partner organizations, we ask our salon and spa network to engage with us during the month of April (and beyond) in supporting these organizations. That engagement includes helping identify partners that will benefit from Earth Month, providing financial support and raising awareness and money among their customers and clients.

For over a decade, this relationship has provided benefits that leverage our Mission to drive environmental and societal change beyond that which we would have achieved acting alone. The synergy between Aveda, our salon and spa network and nearly forty 2012 Earth Month partner organizations has proven to be a successful model for leveraging philanthropy and communication about sustainability issues.

Since 2007, the focus of Earth Month has been on protecting clean water around the world. Because threats to clean water are many and diverse, programs that have been funded through Earth Month grants are comparably varied:

- Providing communities that lack access to clean water with wells and other infrastructure.
- Protecting water supplies by educating

- people about good agricultural and sanitation practices in watersheds.
- Advocating for safe and affordable drinking water.
- Lobbying against industrial, agricultural and commercial projects that do not adequately protect against water pollution.

During this period, Aveda worked with Global Greengrants Fund to provide 946 grants (\$4.6 million) for projects in 44 countries. Aveda's salon and spa network partners raised an additional \$14.5 million for hundreds of additional local Earth Month initiatives in North America, Europe and eastern Asia.

GLOBAL GREENGRANTS FUND

Greengrants has been a partner with Aveda for almost 15 years, the last six of which as our global Earth Month partner responsible for



“AS OUR FIRST AND LARGEST CORPORATE PARTNER, Aveda has had a positive impact beyond the dollars given. Our partnership is a model for corporate-NGO collaboration worldwide, and demonstrates that when partners are truly dedicated to the well-being of people and the planet, everyone benefits. Hats off to Aveda for being a pioneer in this work.”

—Terry Odendahl, Executive Director of Global Greengrants Fund

directing annual donations to environmental and community groups around the world that work at local levels to improve environmental quality.

Partnerships between for-profit companies and nonprofit organizations require time to build solid relationships and trust. For example, building the trust of Global Greengrants Fund took several years. Greengrants had initial concerns regarding Aveda's goals in pursuing a partnership, particularly how the company would represent its early levels of financial support (which were relatively low), the potential for Aveda to precipitously change partners and concerns that other Greengrants funders and other grantmaking organizations might view Greengrants as “selling out” in exchange for funding. In turn, Aveda wasn't always sure that Greengrants understood

that Earth Month was both a charitable funding as well as a brand-building program.

Today, the relationship is an example of an NGO-business partnership achieved through a better understanding of each party's needs. Greengrants maintains its autonomy in choosing which organizations to support through Earth Month funds within Aveda's general guideline that grantees be groups working to protect clean water in various ways in countries where Aveda does business (mainly countries where Aveda sources ingredients). Greengrants altered its focus on small grants (\$5,000 or less) to accommodate Aveda's interest in supporting larger projects focused on access to drinking water through a Donor Advised Fund (DAF). They continue to vet proposed projects (DAF or otherwise) to assure that there is a high

likelihood of achieving intended results and to avoid “white elephants,” thus protecting the reputation of both Greengrants and Aveda. Long-term stability of the relationship is enhanced by Aveda's switch from annual to multi-year funding commitments, which greatly improves Greengrants' ability to plan and implement projects.

“LOCAL” PARTNERS

In addition to Aveda's global partnership with Greengrants, the success of Earth Month is also due to local NGO partners around the world. These NGO partners work directly with Aveda employees in the field and with independent salon/spa businesses to conduct local fund-raising that is used by the partners to support programs and projects to protect clean water. During the 2012 Earth Month campaign, 40 NGO partners worked with Aveda and our network mostly in North America, which is

approximately 80% of our business, but also in Asia, Australia and Europe.

Developing the strong working relationships that enable local fund-raising success takes time and commitment on the part of all participants. We have learned that it is critical to select NGOs whose work resonates with the local salon and spa network and to maintain these relationships for a number of years. In turn, this enables the network participants to see the results of the NGO partners' projects and reinforces their commitment to Earth Month, while drawing more and more potential NGO partners to participate in Earth Month.

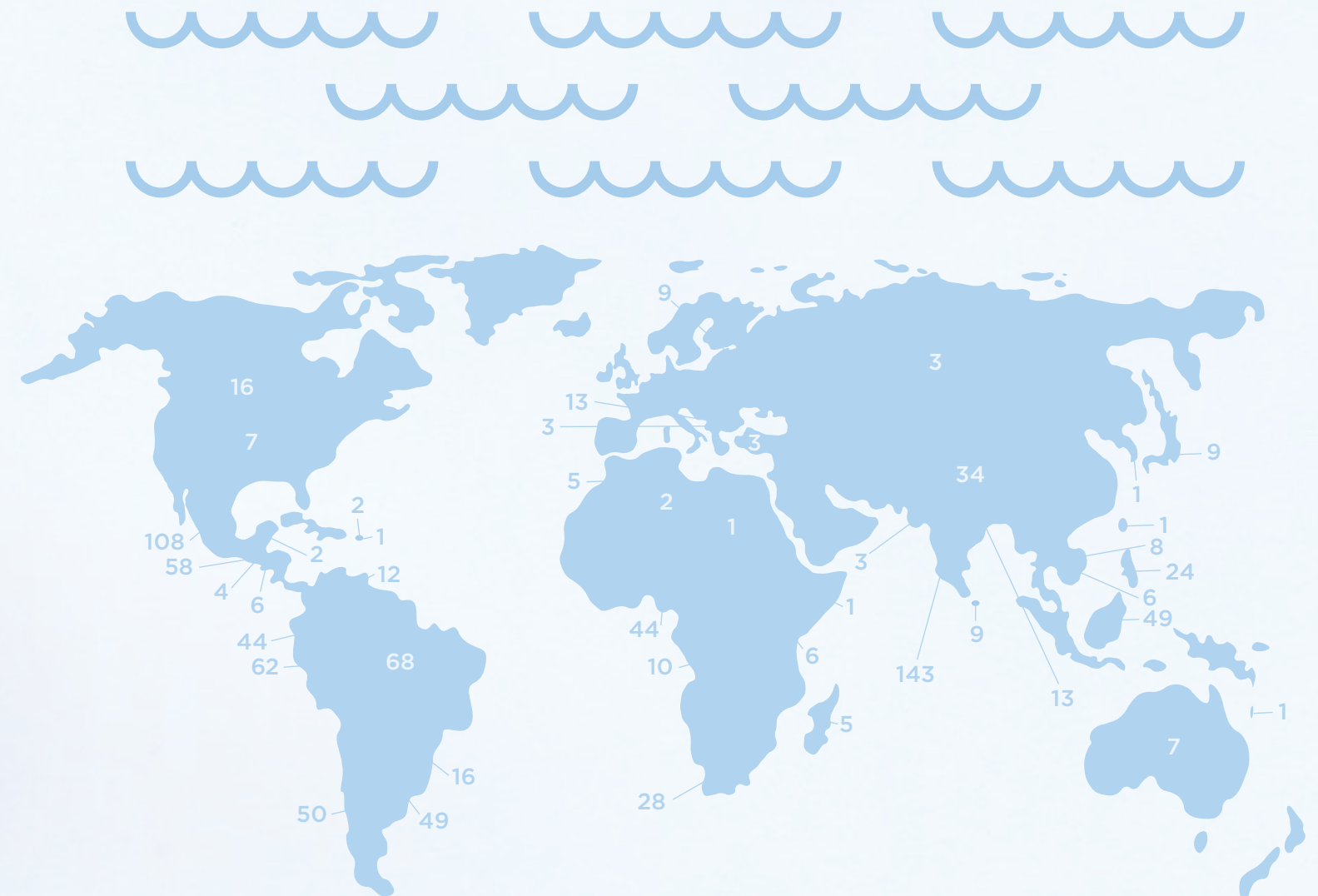
Similar to Greengrants, Aveda evaluates potential local NGO partners and their projects and monitors how funds are used to enhance the integrity of the program. The Aveda Earth and Community Care team and Aveda SDPs or Earth Month "Champions" in regional areas (e.g., states or groups of states in the U.S.) vet partners for alignment with Aveda's Mission and to determine if they have the capacity to support successful

fund-raising and to manage the funding that they are likely to receive. Occasionally, Aveda has had to discontinue a relationship with an NGO partner, but this has become rare as we have become more experienced in selecting, vetting and developing good working relationships with local Earth Month partners.

The maps and table on the following pages show the distribution of Global Greengrants water projects, local partners around the world and examples of their project results.

Aveda is proud of our Earth Month partnerships and the mutually beneficial relationships that have developed between our partners and the Aveda network. Not only do these partnerships yield impressive fund-raising results helping to make a significant impact for the protection of clean water in many areas, but they also cultivate dedicated water activists who become long-term supporters of the cause. These are the reasons Aveda began Earth Month over a decade ago and why it has continued to grow in success year after year.

EARTH MONTH FUNDED GLOBAL GREENGRANTS PROJECTS*



*The numbers on the map represent Global Greengrants Fund projects in countries or areas.



GLOBAL DISTRIBUTION OF “LOCAL”

AVEDA EARTH MONTH PARTNERS

SAMPLE OF INFORMATION ON LOCAL EARTH MONTH PARTNERS AVAILABLE TO THE AVEDA SALON/SPA NETWORK.

AMERICAN RIVERS

The Cleanup program is one of the most effective ways to connect individuals to their river. American Rivers will increase the number of volunteers, cleanups organized and river miles cleaned up in 2012 and 2013. They will also improve educational materials developed in previous years and develop new materials for organizers and volunteers.

CLEAN WATER: Work to stop pollution from sewage spills and stormwater runoff by fighting for the Clean Water Act and preventing the weakening of this important legislation.

RIVER PROTECTION: Identify the list of rivers for the 2013 America’s Most Endangered Rivers report. Secure Wild and Scenic River designations in Washington, Montana and Colorado. Prevent nonpoint source pollution and urban runoff by focusing on green infrastructure like rain gardens and green roofs, which will help to filter contaminants and protect water quality.

For more information on this and other Earth Month partners, see aveda.com.



 = One local Aveda Earth Month partner.

Map data © Google, INEGI, MapLink (This resource is currently only available within the Aveda network but will be made available to all interested parties through aveda.com.)

ISSUE	PARTNER TESTIMONIAL	AVEDA/NETWORK PERSPECTIVE
WATER POLLUTION & CONTAMINATION EXAMPLE: Columbia Riverkeeper in Oregon	<p>Aveda's support has allowed us to grow our volunteer program to clean up and monitor more sites along the Columbia, educating and empowering hundreds of folks in river communities. Perhaps most significantly, we were able to pass more protective water toxic standards, which will clean up the Columbia and markedly improve community health. These results would not have been possible without the generous support and partnership of Aveda.</p> <p style="text-align: right;">BRETT VANDENHEUVEL Executive Director</p>	<p>Living in a community that is affected daily by having a clean water source truly increases the commitment to support and work closely with a group like the Columbia Riverkeeper. We are so pleased to have a partner that works so hard to make sure that our water source — the Columbia River — and all of the rivers that flow into it are kept at a standard of excellence.</p> <p style="text-align: right;">NICOLE HARRINGTON Director Aveda Salon Development Washington and Oregon</p>
WATER CONSERVATION EXAMPLE: Western Water Advocates, Colorado	<p>Our Smart Water program could not be effective without the generous support of Aveda. They really understand the big picture when it comes to water issues, but they also appreciate the smaller strategies and victories required to ensure future water availability. Whether promoting smart xeriscaping in residential areas or working on water efficiency policy at a local, state or national level, Aveda has a true passion for water issues.</p> <p style="text-align: right;">DREW BECKWITH Water Policy Analyst</p>	<p>We are very aligned with the Aveda Mission and truly believe in caring for the environment and giving back when we can. Western Resource Advocates makes it easy to fund-raise by giving unlimited support to all of our efforts. They are very knowledgeable and passionate about water conservation and they really inspire our teams to participate. It is nice to know that our fund-raising efforts not only help this great local cause, but also give support on a global level.</p> <p style="text-align: right;">JESSICA MAPES World Class Salons Denver, Colorado</p>

ISSUE	PARTNER TESTIMONIAL	AVEDA/NETWORK PERSPECTIVE
PROTECTION OF FRESHWATER LAKES & RIVERS EXAMPLE: Alliance for the Great Lakes	<p>The growing investment and confidence of Aveda and its customers in the Great Lakes is supporting a sea change. On the ground, that support means cleaner water going into the lakes and coming out of our taps. It means communities that protect and restore the lakes instead of taking them for granted. And it means that the Alliance for the Great Lakes is empowered to build a growing movement of people who know that this freshwater asset is at the heart of healthy work, play and rest for everyone in the region.</p> <p style="text-align: right;">JOEL BRAMMEIER President</p>	<p>Earth Month is the time of the year that we are able to make the most significant direct impact on international and local water resource issues simultaneously through our fund-raising efforts. Our team and guests are deeply connected to protecting our local water resources, as Lake Michigan is in our backyard. Over the past five years, we have seen a revival of the beaches and waterfront in the Milwaukee area and know that our partnership with the Alliance for the Great Lakes has helped that happen.</p> <p style="text-align: right;">SUSAN HAISE Neroli Salon & Spa Milwaukee, WI</p>



ISSUE	PARTNER TESTIMONIAL	AVEDA/NETWORK PERSPECTIVE
OCEANS AND MARINE ISSUES EXAMPLE: Clean Ocean Action, New Jersey – New York	Aveda's global environmental vision, leadership and support are extraordinary. The support generated by the Aveda family has enabled Clean Ocean Action to stop oil and gas development in the ocean off NY and NJ; it remains wild and industry-free. Over the years of Aveda support, the "Beach Sweeps" program has grown from 50 sites to 70 sites and to over 7,500 participating volunteers. Our ocean links us all around the world. How fitting that Aveda, the global leader, would be the essential defender of the sea. CINDY ZIPF Executive Director	For the past five years we have partnered with Clean Ocean Action to help raise monies for clean water. Our guests in New York connect to our fund-raising efforts because we are so passionate about how important it is to have clean water now and in the future. COA has been instrumental in all of our efforts and we look forward to another successful year! SARAH VANSSADERS Scott J Salon New York, NY
ACCESS TO DRINKING WATER EXAMPLE: WaterAid, United Kingdom	WaterAid is delighted to be an Aveda Earth Month partner. The money raised through Earth Month over the last four years has helped thousands of people gain access to clean water and sanitation in Ethiopia and Nepal. The creativity of Aveda salons and stores is helping to transform lives in some of the world's poorest communities and we're looking forward to achieving even more in 2013. Thank you, Aveda! BARBARA FROST Chief Executive WaterAid	I believe in supporting WaterAid as a charity because having access to clean drinking water should be a basic human right. I find we as a society waste much water in our everyday lives, so raising awareness about the problems that nearly one-fifth of the world's population struggle with is a fundamental action my company abides. GINA CONWAY Owner Gina Conway Salons London, England

CUMULATIVE GLOBAL REPORTING INITIATIVE (GRI) INDEX

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*Partially addressed.

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*Partially addressed.

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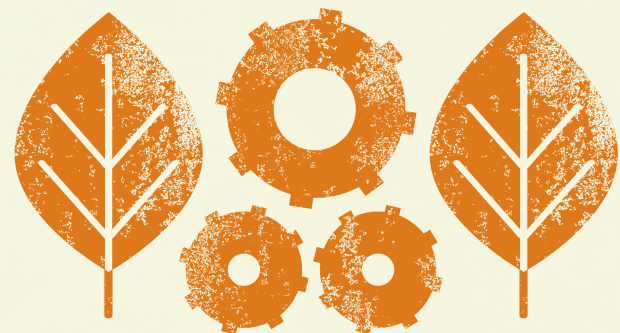
*Partially addressed.

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*Partially addressed.

AVEDA'S BELIEFS

INSPIRE AND EDUCATE PEOPLE TO INTEGRATE WELLNESS AND BEAUTY INTO THEIR LIVES.



ECOLOGICAL AND PROFIT GOALS ARE MUTUALLY ACHIEVABLE.

OUR AUTHENTICITY AND EXPERIENCE ARE OUR POINTS OF DIFFERENCE.

TREAT OURSELVES, EACH OTHER AND THE PLANET WITH CARE AND RESPECT.



SOCIAL RESPONSIBILITY IS OUR RESPONSIBILITY.

“ONENESS” IS POWERFUL — FROM OUR GLOBAL IMAGE TO A FOCUSED NETWORK.

OUR ACTIONS, PRODUCTS AND SERVICE SHOULD ALWAYS EMBODY EXCELLENCE.



LEARNING NEVER ENDS.



PERSONAL AND ORGANIZATIONAL BALANCE IS THE KEY TO SUSTAINABLE SUCCESS.

TRUE LEADERSHIP IS DELIVERED WITH PASSION AND BY EXAMPLE.



ENCOURAGE INNOVATION AND EMPOWER DECISION-MAKING.