

ESTÉE LAUDER COMPANIES

INSPIRED BY  
*BEAUTY*  
DRIVEN BY OUR  
*VALUES*

OUR PROGRESS ON CITIZENSHIP AND  
SUSTAINABILITY IN FISCAL 2017

INSPIRED BY  
*BEAUTY*  
DRIVEN BY OUR  
*VALUES*

# LETTER FROM *NANCY MAHON*

On behalf of The Estée Lauder Companies' 46,000 employees worldwide, I am honored and proud to share our progress on citizenship and sustainability. This report highlights our goals, successes and opportunities in fiscal 2017, and it demonstrates our unwavering commitment to uphold the Lauder family values in our decisions and actions every day.

To us, living these values means infusing them into our culture, our social investments and our sustainable design practices. In the past year, we created new and bolstered existing programs and projects to build a more beautiful and sustainable world for our employees, consumers and communities.

We promoted a welcoming workplace to foster diverse talent and thinking. By expanding development programs, we enabled employees to grow their careers so we can attract, retain and develop the best future leaders of the organization. We also provided global seminars to embed diversity and inclusion at every level of our organization. As a result of these efforts, we have, for instance, achieved a perfect score on the 2017 Corporate Equality Index and appeared on the list of Best Places to Work for LGBT Equality.

Building on our decades-long tradition of service, we continued investing and making a difference in local communities. The Breast Cancer Campaign surpassed its fundraising goal by 20% raising \$7.3M to fund research, education and medical services; enhancing employee engagement across brands, regions and functions. The Estée Lauder Companies Charitable Foundation more than doubled its investment in the Girls' Education Initiative to provide girls around the world with the skills and opportunities to achieve brighter futures. Additionally, M·A·C Cosmetics and its retail partners raised more than \$33 million for the M·A·C AIDS Fund through the brand's annual VIVA GLAM campaign, and our ELC Good Works (U.S.) employee matching gifts and volunteerism platform delivered a 33% engagement rate, exceeding the industry average.

We reduced our environmental footprint by identifying new opportunities for resource efficiency, embedding sustainable practices into our product design and implementing energy conservation initiatives across our business. We also reduced our carbon emissions intensity by 36.3% and made progress toward our goal to be carbon neutral by 2020.

I am proud of our progress and accomplishments to date, and I look forward to working with our partners to continue building a more beautiful and sustainable world for us all.

## **Nancy Mahon**

Nancy Mahon

Senior Vice President

Global Corporate Citizenship and Sustainability

## **GOVERNANCE**

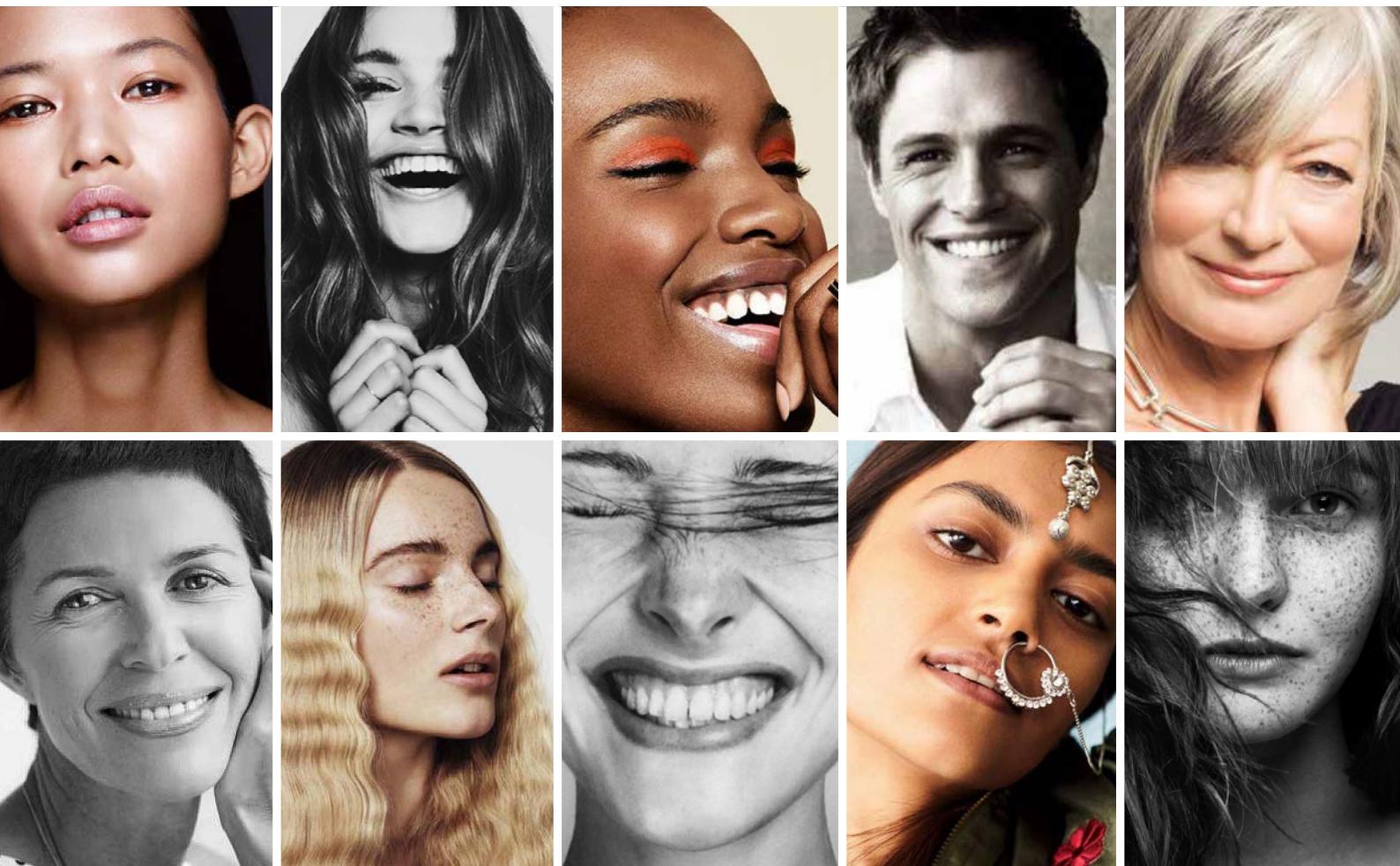
In partnership with The Estée Lauder Companies' senior leadership, Nancy Mahon, Senior Vice President, Global Corporate Citizenship and Sustainability (GCCS) is responsible for setting the Company's strategy, activities, and policies regarding citizenship and sustainability; she sits on the Company's Extended Executive Leadership team and reports directly into our Executive Chairman, William P. Lauder, and our President and Chief Executive Officer, Fabrizio Freda.

GCCS works closely with brands, regions, and functions to advance the Company's citizenship and sustainability practice by engaging with key industry stakeholders, deploying best-practice insights and facilitating integration of this work across the organization. Progress on Sustainability is reported to the Audit Committee of the Board of Directors.

# INSPIRED BY BEAUTY

Every day at The Estée Lauder Companies, we make choices that we know will have impact far beyond our business, and that's a responsibility we take very seriously.

The following update on progress highlights our key advancements in fiscal 2017 in programs and projects designed to increase our social investment, improve operational efficiency and design sustainably to secure long-term and sustainable growth for our company. A full report on progress is expected in fiscal 2019.



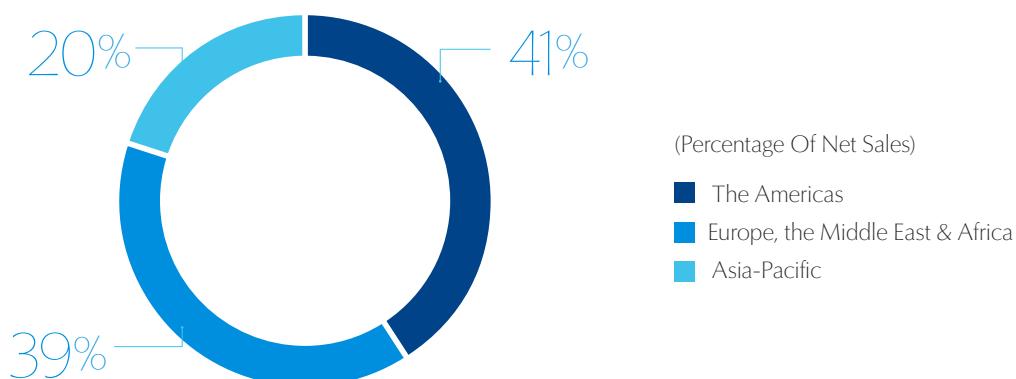
# ESTĒE LAUDER COMPANIES AT A GLANCE FY17

## COMPANY OVERVIEW

\$1.69B      \$1.3B      1,430+      \$11.82B      150+      25+

Operating Income      Global Online Sales      Freestanding Stores      Net Sales      Countries & Territories      Prestige Brands

## RESULTS BY *GEOGRAPHIC REGION*



## PEOPLE

46k+      84%      52%      55%

Employees Worldwide      Female Workforce Worldwide      Women In Vice President Positions & Above      Countries & Territories

## AWARDS AND RECOGNITION



Top 10 Ranking in Reputation Institute's 2016 UK CSR RepTrak®



100% Score on the Human Rights Campaign Foundation's 2017 Corporate Equality Index



Ranked 21st on Indeed's 50 Best Places to Work in the Fortune 500 2017



Included in Working Mother Media's 2017 Diversity Best Practices Inclusion Index



UK & Ireland – Sunday Times' 30 Best Big Companies to Work For 2017



Mexico – Ranked Among Top Places to Work in Expansion Magazine's 2017 list of "Súper Empresas" (Super Companies)

# OUR PROGRESS *summary*

As a family company focused on the long-term, we aim to make smart financial investments for the future of our business and we are ever-striving to align our business practices with environmental and social responsibility.

Our **talented employees** are central to ensuring this alignment and do so by building partnerships based on our values of trust, ethics and transparency. We collaborate with our many stakeholders including suppliers, retailers and consumers to help us reach our strategic goals in the areas of:

## *Our* CULTURE

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### KEY ACHIEVEMENTS

- We continued to build programs to advance our culture of learning and growth.
- We achieved a perfect score on the 2017 Corporate Equality Index, and appeared on the list of Best Places to Work for LGBT Equality.
- We continued to deliver a best-in-class safety rating.

## *Our Social* INVESTMENTS

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### KEY ACHIEVEMENTS

- Our Charitable Foundation extended the Girls' Education Initiative to provide girls around the world with the skills and opportunities to achieve brighter futures and our largest corporate social investment program.
- The Breast Cancer Campaign surpassed its fundraising goal by 20% raising \$7.3M to fund research, education and medical services.
- Our ELC Good Works (U.S.) employee matching gifts and volunteerism platform delivered a 33% engagement rate, exceeding the industry average.
- M·A·C Cosmetics and its retail partners raised more than \$33 million for the M·A·C AIDS Fund through the brand's annual VIVA GLAM campaign.

## *Our Sustainable* DESIGN PRACTICES

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### KEY ACHIEVEMENTS

- We reduced carbon emissions intensity by 36.3%, making good progress toward our goal to be carbon neutral by 2020.
- Our progress in current programs guided the development of sourcing principles to ensure the sustainable use of materials from biodiverse areas.
- We achieved 87.8% diverted or recycled waste materials, just short of our 90% goal.
- We developed new strategies to reduce our use of virgin and oil/gas derived plastics to reduce our GHG emissions.

A woman with blonde hair and red lipstick is shown from the side, applying makeup to her face. In the foreground, a silver tray holds several cosmetic items, including a tube of red lipstick and some eyeshadow palettes. The background is a blurred indoor setting.

# OUR ELC FAMILY *CULTURE*

Our welcoming workplace  
fosters diverse talent and thinking.

## *IN THIS SECTION*

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STRENGTH IN  
INCLUSION & DIVERSITY

OUR LEARNING CULTURE

# OUR ELC FAMILY *CULTURE*

Our welcoming workplace  
fosters diverse talent and thinking.

## STRENGTH IN INCLUSION & DIVERSITY

Our employees are our greatest strength, and we thrive on the creativity and passion they bring to work every day.

In fiscal 2017, we continued to engage employees on inclusion and diversity with a global roll-out of an Inclusion & Diversity educational seminar that was first developed in fiscal 2014. Our focus on inclusion and diversity is a global effort, but with locally relevant programs that adjust to workplace cultures, governmental influences and business leadership.

Employee Resource Groups (ERGs) are a key element of our inclusion and diversity efforts. The groups foster innovation by bringing together different perspectives, experiences and ideas from employees at all levels. Employees can join ERGs to network, exchange ideas, enhance their professional development and engage in business alignment projects. ERGs are typically formed around a social identity or interest and are inclusive and open to all employees.

ERGs have grown significantly since they were introduced in 2013 with just four U.S.-based groups and 830 employees. By fiscal 2017 we had 22 ERGs in six countries, involving more than 4,300 employees. We will continue the global development of ERGs based on subject matter interest and will design activities that support and engage our employees.

Our 2017 Inclusion & Diversity Week was based around the theme of "Inclusive Beauty" and drew participation from 23 countries, a third more than the previous year. The week culminated with an interactive global contest inviting employees worldwide to share what #ELCinclusivebeauty means to them through words, art and pictures.

## OUR ELC FAMILY

# ELC FAMILY CULTURE

## CULTURE AT A GLANCE FY17

### AWARDS AND RECOGNITION

#### 100% Score on the Human Rights Campaign Foundation's 2017 Corporate Equality Index

We achieved a perfect score on the 2017 Corporate Equality Index, and appeared on the list of "Best Places to Work for LGBT Equality."

#### Included in Working Mother Media's 2017 Diversity Best Practices Inclusion Index

We were the only company in the fashion/retail/beauty space to be included in the first Inclusion Index from Working Mother Media.

#### White House Equal Pay Pledge

In December 2016, The Estée Lauder Companies signed the White House Equal Pay Pledge in its effort to promote gender equality in the workplace.

## OUR WORKFORCE



of our global workforce is female



of our U.S. workforce is female



of U.S. senior vice president positions and above are held by women



of general manager positions are held by women



of Board of Directors are women



of U.S. workforce is comprised of minorities



of senior vice presidents and above are held by minorities (U.S.)



of Executive Leadership Team members have lived/worked in a country other than their own



of general managers are local nationals

## EMPLOYEE RESOURCE GROUPS (ERGS)

22

ERGs

6

Countries

4,300+

Employees

ELC FAMILY  
*CULTURE*

## OUR LEARNING CULTURE

We promote a culture of learning and growth so we can attract, retain and develop the best future leaders of the organization.

In fiscal 2017, our Executive Chairman, William P. Lauder, hosted a series of educational town hall meetings around topics addressed in his book, *Decision Making in the Leadership Chair: Vital Lessons from Visionary Executives*. The meetings were attended by more than 2,400 employees and discussions focused on key leadership principles such as leading during times of change, learning agility, resilience and creativity. Audiences at the town halls ranged from high-potential managers to senior management.

Our Presidential Management Associate (PMA) and Presidential Associate (PA) programs continue to promote a learning culture. The programs combine customized professional rotations, continuous leadership development and hands-on practical experience to help participants learn and develop their careers. The PMA program is a two-year rotational program designed for graduate students while the PA program is an 18-month rotational program for undergraduates. Participation in the two programs increased more than 22% from fiscal 2016 to fiscal 2017.

## *SUMMER INTERNSHIP PROGRAM*

The Estée Lauder Companies' 2017 internship program offered college students the opportunity to think critically in real-world corporate situations.



# SOCIAL INVESTMENTS

Our employees are at the heart of everything we do and inspire us every day to build programs and support initiatives that reflect our community values.

## *IN THIS SECTION*

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CORPORATE CITIZENSHIP

BRAND PURPOSE INITIATIVES

# CORPORATE CITIZENSHIP

We are building on our decades-long tradition of investing and making a difference in local communities.

## THE BREAST CANCER CAMPAIGN

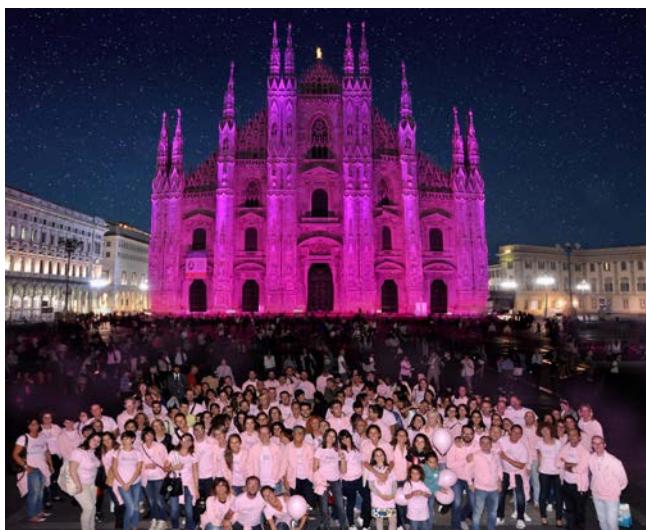
In 1992, Evelyn H. Lauder co-created the Pink Ribbon and launched The Breast Cancer Campaign<sup>1</sup> to bring global attention to a disease affecting millions of people worldwide. Since The Campaign's inception, the pioneering work of The Estée Lauder Companies and other organizations, has resulted in global awareness of breast cancer. As we continued to support our mission of advancing education, research and medical services, we strengthened our year-round engagement for greater action-oriented impact with our employees and stakeholders around the world.

William P. Lauder, Executive Chairman, continues to honor the legacy of his late mother, Evelyn H. Lauder, through his global leadership of The Campaign.

During fiscal 2017, 15 brands supported The Campaign, raising \$7.3 million, which exceeded our original goal by more than 20%. This included \$5.6 million raised for the Breast Cancer Research Foundation (BCRF) in support of 22 research grants and approximately 112,000 research hours. This is in addition to supporting more than 60 organizations around the world that align to The Campaign's mission.

At the same time, we continued to grow, expand and rally our global online community to act together in the fight against breast cancer, by sharing inspirational, educational content across key Campaign social media and online platforms, resulting in significant increases in audiences and engagement.

The Campaign dove deeper into employee engagement by hosting awareness, education and fundraising initiatives worldwide to engage employees, partners and consumers around the cause.



### THE BREAST CANCER CAMPAIGN

FY17	\$7.3m
FY16	\$6.5m

Raised by The Breast Cancer Campaign to support the Breast Cancer Research Foundation and other charitable cancer organizations globally

<sup>1</sup> Following the timeframe of this report (fiscal 2017) but prior to publication, The Campaign was rebranded from The Breast Cancer Awareness Campaign to The Breast Cancer Campaign. This update acknowledges The Campaign's success in building awareness, and the intent to elevate efforts in fighting breast cancer.

CORPORATE  
*CITIZENSHIP*

## THE ESTÉE LAUDER COMPANIES CHARITABLE FOUNDATION

Established in fiscal 2016, The Estée Lauder Companies Charitable Foundation (ELC Foundation) builds on our long tradition of giving back to and making a difference in our local communities. The ELC Foundation operates grant portfolios that focus on health, education and the environment.

### BRIGHTER FUTURES

Founded in 2016, the ELC Foundation's Girls' Education Initiative was in its second year in fiscal 2017 and continued to support access to quality education for girls in some of the world's most under-resourced communities. In fiscal 2017, the ELC Foundation more than doubled its investment in the Initiative, extending impact more deeply in countries with existing partnerships such as South Africa, the United Kingdom, Mexico, India and Brazil. The programs funded in fiscal 2017 reached more than 140,000 individuals, establishing six additional strategic partnerships and one public-private partnership.

### *THE ELC FOUNDATION'S GIRLS' EDUCATION INITIATIVE*

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33

Grassroots Organizations

22

Countries

5

Continents

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### *SELECTED PARTNER ORGANIZATIONS*

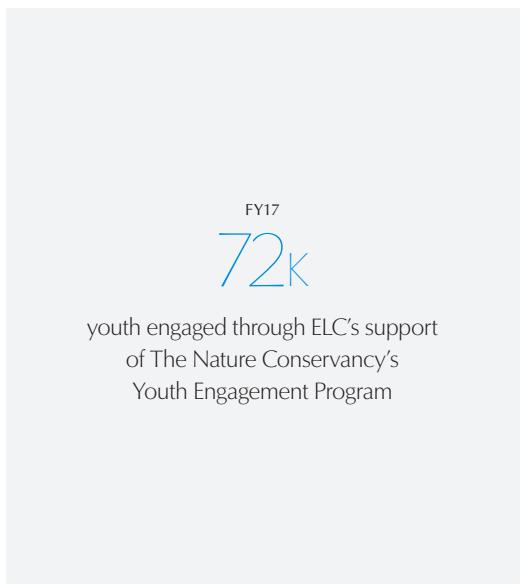
- Global Fund for Children
- The Resource Foundation
- International Rescue Committee
- Turnaround Arts
- She's the First
- Ikamva Youth
- Pratham

## CORPORATE CITIZENSHIP

The ELC Foundation focuses broadly on school-based and after-school programs that incorporate health, life skills and self-esteem into education. Working with non-profit partners, we seek to ensure the long-term impact and sustainability of our work by aligning each local program with the individual needs of the community it serves. For example, in Brazil and Mexico, ensuring adolescent girls stay in school is a key way to minimize the risk of violence, early pregnancy and health issues. As a result, we support programs in these countries that focus on effective enrollment, retention and empowerment tactics and that reinforce gender equality at school and within the community. In South Africa, where high school graduation and employment rates are low, we support programs that focus on peer mentorship, computer literacy, and life skills and improve high school graduation and employment prospects.

## NATURAL LEADERS

In May 2017, the ELC Foundation made its inaugural environmental grant of \$100,000 to The Nature Conservancy's Youth Engagement Program. The program provides students with the skills, knowledge, and practical leadership experience to address current and future environmental challenges through a "Learn, Act and Lead" framework. Our support translated to engaging approximately 72,000 youth globally, fostering deeper connections between the next generation and our natural world.



# CORPORATE CITIZENSHIP

## COMMITMENT TO ENDING HIV/AIDS

M·A·C Cosmetics supports programs that effectively and strategically focus on underserved and stigmatized populations and promotes leadership, best practices, and innovation in direct services and prevention for people living with and at risk for HIV/AIDS. To date, M·A·C Cosmetics has raised more than \$487 million through the sale of VIVA GLAM lip products.

In fiscal 2017, M·A·C Cosmetics and its retail partners raised more than \$33 million through the brand's annual VIVA GLAM campaign. On World AIDS Day, more than 3,000 M·A·C employees volunteered at HIV/AIDS organizations in 40 countries. Throughout the year, M·A·C employees raised almost \$600,000 through M·A·C's AIDS Walk and Team Grants programs.

M·A·C is the lead private funder in the UNAIDS Fast-Track Cities Initiative, a global initiative committed to ending AIDS in high-burden cities around the world. Through this initiative, M·A·C has committed more than \$6 million to targeted efforts to end AIDS in 17 global cities, aiming to reach over 800,000 people. In fiscal 2017, M·A·C launched public-private partnerships with the cities of Paris, Mexico City, and Washington, D.C.



### M·A·C COSMETICS

FY17	\$33m
FY16	\$44m+

Raised by M·A·C Cosmetics through the VIVA GLAM campaign to support people living with and affected by HIV/AIDS

SOCIAL INVESTMENTS

# CORPORATE CITIZENSHIP

## OUR EMPLOYEES' GOOD WORKS

ELC Good Works, our employee matching gifts and volunteerism platform, aims to inspire and empower employees to support local causes. Launched in the U.S. in fiscal 2016, the program matches employee donations to eligible nonprofits dollar-for-dollar and matches employee volunteer time (\$20 per hour volunteered).

High levels of engagement during fiscal 2017 demonstrated our employees' passion for charitable work and giving back to their communities. The total number of donors increased by nearly 200%, the total amount donated increased by 60%, and the number of dollars-for-doers matches increased by 140%. The ELC Good Works (U.S.) platform also delivered a 33% engagement rate, exceeding the industry average.

ELC GOOD WORKS (U.S.)

FY17  
FY16

\$67k  
\$58k

matched on average per month

FY17  
FY16

33%  
6%

platform engagement rate



# BRAND PURPOSE INITIATIVES

In addition to our company-wide giving programs, many of our brands contribute to their communities in a way that aligns with both the brand equity and the priorities of its employees. Here's a snapshot of some of our brand giving in fiscal 2017.



## AVEDA

In April 2017, during Earth Month, the global network of Aveda Artists and corporate employees raised a total of \$5.8 million for clean water projects around the world. Since 1999, thanks to the efforts of the Aveda Network and its guests, Aveda has raised more than \$56 million to fund hundreds of local and global environmental organizations.



## ORIGINS

In 2017, Origins continued to honor its ongoing commitment to greening the planet by planting more than 69,400 trees to aid reforestation projects around the world in partnership with American Forests' Global ReLeaf. Since the partnership debuted in 2009, Origins has planted more than 750,000 trees - helping to restore areas damaged by natural disasters and reduce air and water pollution.



## LA MER

In May 2017, a collection of 53 "waves" designed by artists, celebrities and environmentalists appeared on the streets of New York through a collaboration between La Mer and Project O. The waves were part of a project to raise awareness around Project O's mission to protect the world's oceans. Select waves were then sold in an exclusive, live charity auction event by Sotheby's and all proceeds were donated to support marine conservation projects.



## JO MALONE LONDON

Jo Malone London donated \$370,000 to support the cultivation and care of scented gardens that support vulnerable individuals living with mental illness.



## BOBBI BROWN

In partnership with the international non-profit Kiva Microfunds, the Pretty Powerful Campaign for Women & Girls makes education microloans available to women and girls around the world. The partnership has helped more than 1,000 women across 24 countries to date.

# SUSTAINABLE *DESIGN*

We are challenging ourselves to embed sustainable practices into our product design and are taking steps to improve efficiency in our operations and thinking long term to incorporate resource efficiency into our good manufacturing practices, our products and packaging.

## *IN THIS SECTION*

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### EFFICIENT OPERATIONS

A Low-Carbon Future

Zero Waste To Landfill

Best-in-Class Safety

Conserving Water Resources

### RESPONSIBLE PRODUCT DESIGN

Product Innovation:

Green Chemistry

Responsible Sourcing

Ingredient Spotlight

Sustainable Packaging

# EFFICIENT OPERATIONS

We are committed to reducing our environmental footprint and identifying new opportunities for resource efficiency.

## A LOW-CARBON FUTURE

In fiscal 2016, we made a pledge to achieve a net zero carbon goal by 2020. Our strategy is to improve efficiency in our operations, invest in clean and renewable energy and purchase carbon offsets. We are also committed to improving our waste management and water usage practices.

In fiscal 2017, we made progress toward our net zero goal by reducing both emissions intensity and absolute emissions from our owned and operated facilities. **Overall, we reduced our carbon emissions intensity by 36.3%** through a combination of renewable energy utility contracts, renewable energy certificates and on-site solar.

Our net zero-related initiatives do not go through the normal competition for capital funds, which allows us to accelerate our net zero efforts.

### OUR 2020 COMMITMENTS

#### NET ZERO

Carbon Emissions

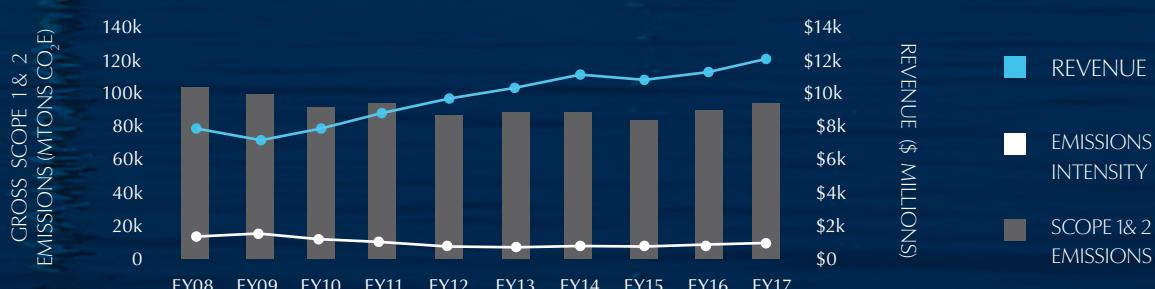
#### RE100

100% of our global electricity sourced from renewable energy technologies

We further enhanced our corporate commitment to clean energy by joining RE100 and committing to sourcing 100% of our global electricity from renewable energy technologies by 2020.

Our factories are also certified to ISO 14001 standards for environmental management and have moved to the newer ISO 14001:2015 standards for all global manufacturing sites.

### SCOPES 1 & 2 EMISSIONS INTENSITY (MTONS CO<sub>2</sub>E PER \$M)



SUSTAINABLE DESIGN  
*EFFICIENT*  
OPERATIONS

## A LOW-CARBON FUTURE

We have delivered significant results from energy conservation initiatives across our business globally. For example, we developed a comprehensive energy reduction program at our Keystone facility in Bristol, Pennsylvania, following the collection and analysis of onsite energy usage data. We changed the building's lighting system to light-emitting diode (LED) lighting, which reduced the facility's energy usage by nearly 30,000 kWh from fiscal 2016 to fiscal 2017. We also installed a Building Management System that enabled control of the lighting, heat and expected shutdowns, which reduced energy use by 69,000 kWh from fiscal 2016 to fiscal 2017.

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## TOTAL GLOBAL ENERGY CONSUMPTION (Megawatt Hours)

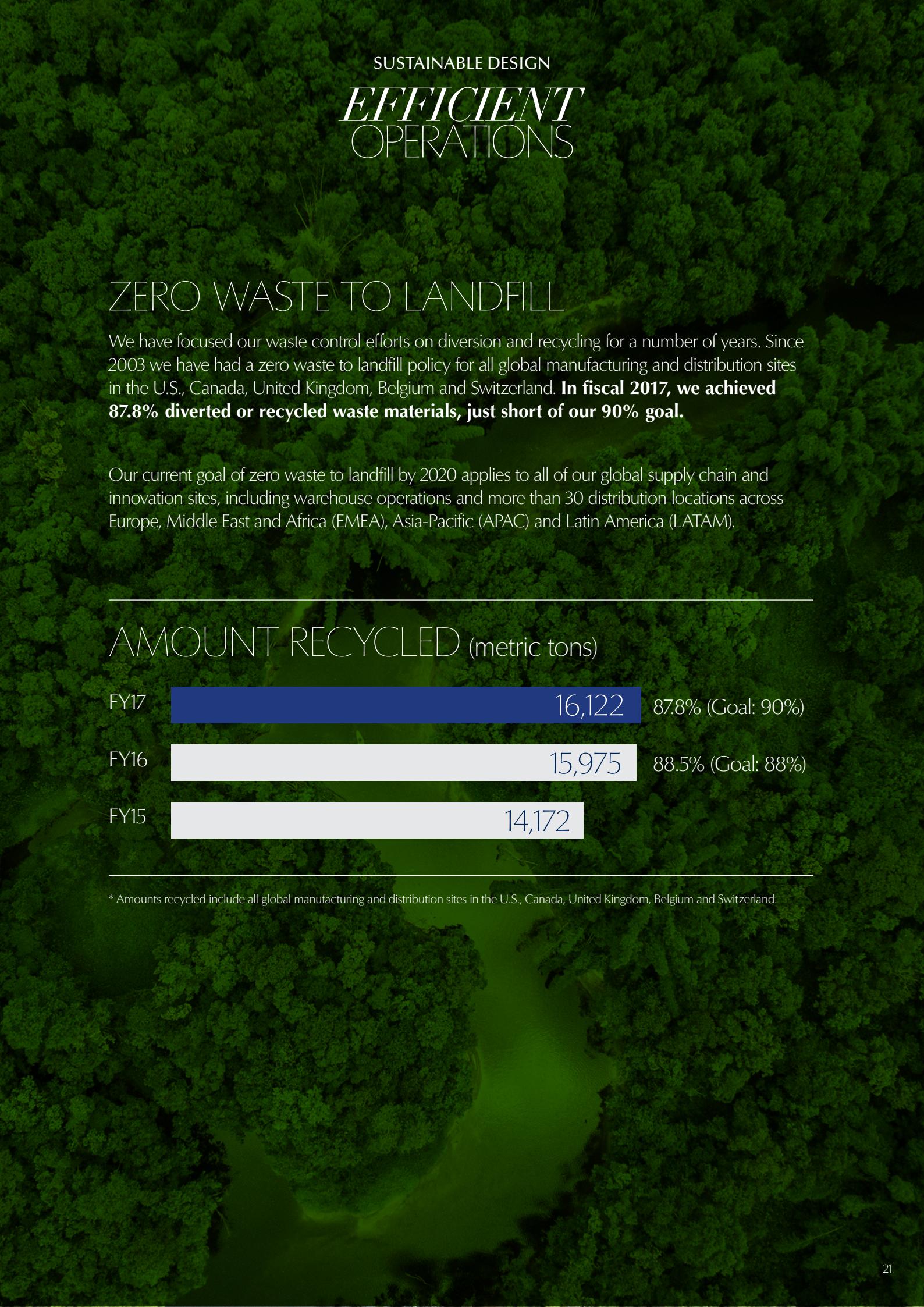
FY17	317,210*
FY16	295,754

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\*Total locations across The Estée Lauder Companies' global portfolio increased by 9.1% in FY17 with 170 location openings (160 retail, 9 offices, 1 distribution center) and 45 closures (33 retail, 12 offices) while energy consumption only rose 7.25%



Our global distribution centers in the United Kingdom, Romania, Greece, South Africa, Mexico, Brazil, China and Thailand have also converted their lighting to LEDs to save energy and reduce carbon emissions. And at our Japan distribution center, the facility recently deployed forklift trucks that incorporate a fuel cell energy saving unit. These high efficiency trucks reduce electric power consumption by 15%.



SUSTAINABLE DESIGN  
*EFFICIENT  
OPERATIONS*

## ZERO WASTE TO LANDFILL

We have focused our waste control efforts on diversion and recycling for a number of years. Since 2003 we have had a zero waste to landfill policy for all global manufacturing and distribution sites in the U.S., Canada, United Kingdom, Belgium and Switzerland. **In fiscal 2017, we achieved 87.8% diverted or recycled waste materials, just short of our 90% goal.**

Our current goal of zero waste to landfill by 2020 applies to all of our global supply chain and innovation sites, including warehouse operations and more than 30 distribution locations across Europe, Middle East and Africa (EMEA), Asia-Pacific (APAC) and Latin America (LATAM).

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### AMOUNT RECYCLED (metric tons)

FY17	16,122	87.8% (Goal: 90%)
FY16	15,975	88.5% (Goal: 88%)
FY15	14,172	

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\* Amounts recycled include all global manufacturing and distribution sites in the U.S., Canada, United Kingdom, Belgium and Switzerland.

OUR ELC FAMILY

# EFFICIENT OPERATIONS

## BEST-IN-CLASS SAFETY

The Lauder family values are reflected in our safety culture. Through our “Actively Caring” safety program, we foster an attitude of behavior-based safety. In fiscal 2017, we continued to deliver a best-in-class safety rating, with our total incident rate of 0.29 not only meeting our fiscal 2017 target, but also continuing our record of decreasing our rate every year for the last decade.

### *2017 AWARDS*

National Safety Council’s Occupational Excellence Achievement Award [in 17 locations]

National Safety Council’s Perfect Record Award [in 5 locations]

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### *RECORDABLE INJURIES*

Total Recordable Injuries			Slips, Trips and Falls			Ergonomic Injuries			Cuts and Lacerations		
FY17	FY16	CHANGE	FY17	FY16	CHANGE	FY17	FY16	CHANGE	FY17	FY16	CHANGE
173	178	-3%	71	69	+3%	30	41	-27%	9	19	-53%

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SUSTAINABLE DESIGN  
*EFFICIENT*  
OPERATIONS

# CONSERVING WATER RESOURCES

Our holistic approach to sustainability also involves prudent use of water resources. At our production facility in Blaine, Minnesota, we implemented several water-saving initiatives that had been identified through a water conservation study. The initiatives saved more than 5,300 cubic meters of water per year, with one project alone saving around 2,551 cubic meters by recirculating equipment-cooling water. Another initiative, focused on improving the building's evaporative cooling tower motor controls, saved 2,1777 cubic meters of water.

## TOTAL WATER USE (cubic meters)

FY17	579,352	901,908	1,481,260 (-22.6% change)
FY16	624,186	1,290,337	1,914,523 (+8.4% change)
FY15	604,457	1,161,591	1,766,048 (-22.9% change)

  WATER USAGE FOR 25  
GLOBAL SUPPLY CHAIN SITES

  GROUNDWATER USED FOR  
HEATING, VENTILATION AND  
AIR CONDITIONING

# RESPONSIBLE PRODUCT DESIGN

## PRODUCT INNOVATION: Green Chemistry

We design high-performance product formulations utilizing ingredients and suppliers that are evaluated across a range of quality and sustainability factors. We were one of the first beauty companies to systemically institute a multi-parameter sustainability assessment algorithm for evaluating each and every ingredient and formula based on environmental and ecotoxicity impact, and Green Chemistry principles. In 2018, we will be leveraging data analytics with the thousands of data points from the past several years to further refine this invaluable tool.

We are also partnering with external suppliers and innovators to develop the next generation of high-performance renewable materials and leveraging our strengths in fermentation and botanical research to build an enviable bank of naturally-derived, high-performance ingredient assets.

In addition, we are building a sustainability learning culture across ELC, leveraging external Green Chemistry experts and the deep experience and expertise within our leading-edge brands, such as Aveda and Origins, to innovate with sustainable design capabilities across every brand within the Company.

SUSTAINABLE DESIGN

## *RESPONSIBLE PRODUCT DESIGN*

# *RESPONSIBLE SOURCING*

We work closely with our suppliers and other organizations to source with integrity and build a traceable, sustainable supply chain.

## RESPECT FOR BIODIVERSITY

Building on our efforts in fiscal 2016, we continue to develop sourcing protocols to ensure the sustainable use of materials from biodiverse areas.

We also continue to establish sourcing principles in line with The Nagoya Protocol, an international agreement that promotes the fair and equitable sharing of benefits that arise from the use of genetic resources and associated traditional knowledge. As member countries continue to ratify and adopt the Nagoya Protocol, we will continue to lead the industry by example, through fair and equitable sourcing practices around the globe.

# *RESPONSIBLE* PRODUCT DESIGN

## INGREDIENT *SPOTLIGHT*

### SUSTAINABLE PALM OIL

We know there are complex social and environmental issues around the production and traceability of palm-based ingredients, an important element of many of our products.

We continue to build on our achievements to responsibly source the palm-based ingredients (mostly palm kernel oil, or PKO, derivatives) that we buy, and are working with our suppliers to ensure the same standards are applied across our supply chain.

Working closely with our high-volume suppliers, we are improving the traceability of the PKO derivative ingredients we use, addressing the social and environmental issues in our supply chain, and encouraging the development of sustainably sourced alternatives. We are also a member of the Roundtable for Sustainable Palm Oil (RSPO), which has established guidelines to more closely confirm this traceability.

We are making progress against our targets. From 2016 to 2017, we increased our procurement of PKO derivative ingredients through RSPO-certified physical supply chains (using the Mass Balance method) from 20% to 32%. Our remaining volume of PKO derivative ingredients is covered annually through the Book and Claim supply chain model via the purchase of RSPO Credits. This ensures that every ton of PKO directly purchased supports the production of sustainable palm oil. We intend to continue substituting existing PKO derivative ingredients with RSPO-certified Mass Balance alternatives by partnering with strategic suppliers on our palm oil sourcing policy.

CY17

100%

of palm-based materials procured are palm kernel oil derivatives

CY17

100%

CY16

100%

of palm-based ingredients sourced through certified-sustainable supply chains

CY17

100%

CY16

100%

of palm-fruit oil sourced by Aveda is certified Identity Preserved by RSPO and also Certified organic

CY17

32%

CY16

20%

procurement of Mass Balance palm-based ingredients (2020 goal: 50%)

# ***RESPONSIBLE PRODUCT DESIGN***

## MICA

Our complex supply chain means that we are often faced with multifaceted issues. One such critically important issue is child labor, which for some communities is a socioeconomic challenge that can be met only through practical solutions. In 2005, we took up that challenge. We partnered with local NGO Bachpan Bachao Andolan (now the Kailash Satyarthi Children's Foundation or KSCF) to help address child labor in the mica mining industry by promoting education as an alternative to work for children in mica-sourcing communities.

**As of fiscal 2017, we have supported the establishment of more than 150 Child-Friendly Villages (CFVs) that have been jointly designed with the communities. The CFV model, which has since been adopted by other organizations, aims to help communities understand and access their legal rights, including women's right to vote in elections, as well as ensure that every child is supported in their pursuit of education.**

The program also offers periodic health clinics for village children and has started other social programs, such as youth and women's groups. Our partnership with KSCF has created a model for public-private cooperation that many in and outside our industry now support.

## PLASTIC MICROBEADS

In fiscal 2016, we committed to voluntarily remove microbeads (defined by industry and state regulations as any intentionally added, 5 mm or less, water insoluble, solid plastic particles used to exfoliate or cleanse in rinse-off personal care products) from our products by the end of our fiscal 2017. We met this commitment ahead of deadline and no longer formulate or ship products with microbeads.

Our R&D and product development teams identified and tested alternative ingredients, verified that these alternatives could be used effectively in our products and ensured that they could satisfy our consumers' expectations. Through these actions we successfully met our commitment in fiscal 2017 to no longer create or ship products with microbeads.

## ***TO HELP BUILD AND STRENGTHEN OUR SOURCING STRATEGIES, WE ARE MEMBERS OF:***

**AIM-Progress**, a global responsible sourcing forum for diverse consumer goods manufacturers and their common suppliers

**The Roundtable on Sustainable Palm Oil (RSPO)**, a nonprofit organization that unites key stakeholders in the palm oil industry to develop and implement global standards for sustainable palm oil

**The Natural Resources Stewardship Circle (NRSC)**, a nonprofit organization dedicated to implementing good practices and responsible sourcing in the beauty industry

SUSTAINABLE DESIGN

# RESPONSIBLE PRODUCT DESIGN

# SUSTAINABLE PACKAGING

Packaging is one of the main ways we engage with our consumers and is an integral part of our innovation and sustainability efforts. We are committed to creating high-performance packaging that reduces the carbon impact of our total value chain and has less impact on the planet.



# ***RESPONSIBLE PRODUCT DESIGN***

## **SUSTAINABLE PACKAGING**

We create high-performance packaging in a number of ways, including using recycled materials, bio-sourced resins and repurposed glass in order to further reduce our GHG emissions. For example, Aveda's package designers explored the use of plant-based feedstock for manufacturing the plastic used in our packages. At the same time, our Back-to-M·A·C program continues to encourage customers to return used makeup components to be recycled for use in other products.

Our sustainable packaging approaches include:

**LOW-IMPACT SOURCING:** Making sustainability one of the essential criteria in purchasing decisions, along with quality, price and innovation. This will ensure a "least-carbon intensive" approach throughout our supply chain.

**BIO-SOURCING:** Taking advantage of advances in bio-sourced materials, especially as replacements for oil/gas derived plastics.

**RECYCLING:** Substituting some part of virgin content for recycled content.

**MATERIAL SUBSTITUTION:** Using components made from less carbon-intensive materials.

**RECYCLABLE PACKAGING:** Identifying opportunities to pursue recyclable primary packaging, as well as inserts.

**ELIMINATION:** We are identifying and striving to eliminate components within our packaging where possible.

## ***FY16 & FY17 AWARDS***

### **2017 Sustainable Beauty Awards**

Winner, Sustainability Leadership: Aveda

### **2017 Beauty ID Awards**

Winner, Package Innovation, Sustainability: Aveda/Tulasara series

### **2017 ADF & PCD New York Innovation Awards**

Winner, Packaging Sustainability Innovation for Skin Care: Aveda Tulasara Wedding Masque

### **2016 Printing Industry of Mid-West Star of Excellence Awards**

Certificate of Merit, Print Excellence and Environmentally Sound Materials:  
Aveda Travel Retail Cartons and Aveda Daily Light Guard Carton

ESTĒE LAUDER COMPANIES