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CEO Letter

As I write this letter in the fall of 2007, I feel more hopeful and optimistic than I have in many years. The past 18 months have brought more positive change to society's awareness of and business' focus on sustainability than the prior 18 years combined. These positive changes, however, do not mean that we have solved most of the challenges we face. On our journey, which starts from one and goes to 10, traveling from one to two may represent 100% growth, but that achievement, impressive though it may seem, nonetheless is only 20% of the way to our final goal. 80% of our work remains undone.

The good news is that there are many positive signs that that 80% can and will be achieved. The first can be found in our nation's houses of worship, where concern about the environment has awakened tens of millions of Americans from all denominations to the need to become stewards of God's creation. 135,000 congregations from Catholic parishes and synagogues to Protestant and Eastern Orthodox churches and evangelical congregations are increasingly putting green topics front and center with sermons for clergy, lesson plans for Sunday school teachers, and even conservation tips for building managers.

Another major indicator is our national health and wellness obsession. Coupled with chronic disease rates that are out of control (allergy & asthma have reached epidemic proportions) and health care costs that threaten to cripple our economy, it's a trend that's making preventive healthcare an essential solution. Today, almost every consumer item wants to be a health & wellness product. Natural and organic choices continue to do a huge business with sales in 2005 just north of \$50 billion in the U.S. alone. Consumer spending within the U.S. LOHAS market, a fancy acronym for "Lifestyles Of Health And Sustainability," reached \$209 billion in 2005, over \$400 billion if you include socially responsible investing (www.NMIsolutions.com).

And then there's Wal-Mart. The big news here is not about skylights in their stores, their efforts to sell 100 million compact fluorescent light bulbs, or the increased fuel efficiency of their trucks. What really matters is that the retail behemoth's new obsession with the environment has shifted the thinking of senior managers at thousands of consumer packaged goods companies all over the world that want to keep their biggest customer happy.

Imagine what will happen in the coming years now that hundreds of millions, if not billions, of dollars of research and development spending at these companies has been redirected to developing new environmental benefits in all kinds of products. Some of these changes are already beginning to flow into the marketplace in the form of things like double concentrated laundry liquid, compact fluorescent bulbs with less mercury content, coreless toilet paper, reduced packaging and the elimination of toxic chemicals from household products.

Just as it is in the world's R&D labs, the situation in corporate boardrooms is changing, too, as senior management teams read the handwriting on various walls like this November 2006 warning from a McKinsey & Co. internal white paper:

The contract between businesses and the society in which they operate is changing quickly. Societal pressure is escalating, and companies are finding themselves increasingly on the defensive. By incorporating society's demands into their strategic planning, however, companies can turn apparently threatening sociopolitical trends to their advantage.

Companies that successfully bring society into strategy will create enormous value, as well as contribute to the greater good. They will have better growth potential.

Changes are also being driven in no small part by local and state governments that have become true activists themselves. Consider these important regulatory signposts:

- San Francisco has become the first city in the US to ban non-biodegradable plastic grocery bags.
- Portland, Oregon has committed to reducing stationary source air emissions 85% by 2025 and to generating all its electricity within city limits by 2025.
- Chicago's goals for 2010 are to use 20% renewable energy.
- The California Air Resources Board has developed regulations and market mechanisms that will reduce California's greenhouse gas emissions 25% by 2020.
- A bill pending in the California legislature would require all consumer products companies to maintain a web site listing all the ingredients in each of their products.

Perhaps the most important clue of all is the emerging reality that responsible businesses financially outperform their less responsible peers. The Financial Times reported that if you had bought stock in all the public companies in Milton Moskowitz's ranking of the 100 best companies to work for in 1998, when it was first published by Fortune magazine, and held that stock until 2005, you would have made twice the annualized return of the S&P 500 Index. If you had sold your stock each year and reinvested in the new annual list, you would have made three times the S&P return.

Echoing this finding, Goldman Sacks released a new report in July 2007, which found that companies considered leaders in environmental, social and governance policies also lead the pack in stock market performance by an average of 25 percent.

This changing environment has led a variety of multinational companies to do things that would have been unimaginable just a few years ago, and this is where the most hopeful and inspiring part of the world's transition is taking place, a transition not of isolated initiatives and symbolic acts, but of real systemic change in which the dream that business can understand and act in a sustainable manner is at last coming true.

My favorite example is the yogurt factory that Danone is building in Bangladesh. As reported by Fortune magazine in January 2007, Danone is building a factory in a joint venture with the Grameen Bank in which the revenue and profits will not end up on Danone's bottom line but will be reinvested in future projects of a similar nature. The factory was built at a cost of half a million dollars, and ultimately 50 more like it will follow if the project is successful. The idea is to rely on local Grameen farmers to sell the factory milk and on Grameen micro vendors to sell the yogurt that results door to door to the bank's 6.6 million members. According to Fortune, "Danone estimates that it will provide income for 1,600 people within a 20-mile radius of the plant. Biodegradable cups made from cornstarch, solar panels for electricity generation and rainwater collection vats make the enterprise environmentally friendly (<http://money.cnn.com/magazines/fortune>).

“Emmanuel Faber, Danone's former CFO boldly says that ‘Profit maximization is not going to be the only way to measure value.’ Danone CEO Franck Riboud believes that the social benefits of the project may some day be reported on Danone's bottom line. ‘The new wave in business is, forget corporate social responsibility and philanthropy - how do you integrate this into your core business?’ Riboud says. ‘The idea Danone has of creating a social dividend for shareholders - that's cutting-edge. No one else has come up with this interesting a model. It supports your brand, returns your capital, you're not going to lose money and you give your shareholders a vision of doing something good.’”

All these signs mean one thing: The business community has an extremely unique opportunity that we, its members, may never have again and that will easily pass us by if we fail to recognize it. There is more interest and possibility than ever before for corporate responsibility to have the kind of positive impact on society that we have always hoped it would have. Seizing this opportunity will require an honest assessment of where our efforts have fallen short, and it will require the development of a holistic plan to improve on that record as we move forward. Pictures of smiling faces and pristine rivers in ads and on product labels won't get us there. Only a humble, honest and self-critical perspective can increase the likelihood of a brighter future for us all.

Seventh Generation may be a small business in a small town located in a largely forgotten distant corner of the country. But we are committed to providing the leadership that this process needs to achieve its final promise. That leadership will be born of our ability to critically reflect on our own progress, to build the consciousness necessary to see the world as a single whole of infinitely interconnected wonder, and to grow ourselves to our full potential. That is what it will take to surmount what is without question the gravest and most essential challenge humanity has ever faced. And that is what we intend to do.

Contact:
Jeffrey Hollender
President and Corporate Responsibility Officer

P.S. We have tried our best to practice what we preach in this update. Please let us know how we're doing, by sending me your thoughts via e-mail to responsibility@seventhgeneration.com.
[GRI 1.1, GRI 1.2]



About Seventh Generation

Seventh Generation is the nation's leading brand of non-toxic, environmentally safe household products. With national distribution in thousands of natural product, grocery, other retail stores, and e-commerce retailers, we've become the nation's leading authority on consumer products that protect public health and the environment. We are a small rapidly growing private company with 2006 sales of less than \$100 million. [GRI 2.1, GRI 2.2, GRI 2.3, GRI 2.6, GRI 2.7,].

Our corporate office is located in Burlington, Vermont, where at the end of 2006 we employed 52 team members, 11 people more than in 2005. Our core operational activities include designing and formulating our products, overseeing supplier manufacturing, maintaining quality control, managing transportation logistics, sales and marketing, and consumer education activities. We did not introduce any new products during 2006. [GRI 2.4, GRI 2.5, GRI 2.8, GRI 2.14]

We specify the ingredients used in our products [GRI 2.2]. **Our products include:**

- Non-chlorine bleached, 100% recycled paper towels, bathroom and facial tissues, and napkins (with 10% to 80% post consumer content); Our paper plates were discontinued in 2006.
- Non-toxic, chlorine free, phosphate-free, biodegradable cleaning, dishwashing, and laundry products;
- Plastic trash bags made from 60% to 85% recycled plastic (with 10% to 30% post-consumer content);
- Non-chlorine bleached diapers and baby wipes made from a non-chlorine bleached substrate; and
- 100% organic cotton tampons and non-chlorine bleached pulp pads and liners.

Our Principles

We endorse the Ceres Principles and strongly support Ceres in its efforts to foster meaningful dialogue about corporate responsibility. We value the unique forum Ceres provides for constructive exchanges between corporations, activists and socially responsible investors, and recommend that readers of this report visit www.ceres.org to learn more about the organization's work.



We also support the Precautionary Principle and use its basic tenets in the evaluation of all materials and processes used to make our products. For more information about the Precautionary Principle, please visit www.sehn.org/precaution.html. [GRI 3.14]

Governance

Our five-person Board of Directors has traditional and fiduciary responsibilities. Peter Graham is the Chairman of the Board. Our Board has two committees—the Audit Committee and the Compensation Committee [GRI 3.1 & GRI 3.2]. Jeffrey Hollender handles corporate responsibility board duties. A second director, Barnet Feinblum, has served since July 1998 and has significant corporate responsibility experience as the President and Chief Executive Officer of Horizon Organic Holding Corp., a leading brand of organic food products. All of our board members have significant experience in finance, strategy,

Board Profile

Board Directors	Independent Directors	Women & Minorities
5	3	1

and marketing. [GRI 3.3] Bonus compensation for senior management is based on the achievement of corporate financial goals (75%) and individually determined Key Results Objectives (KROs) (25%). KROs include personal growth and community participation objectives and contributions to the company's corporate responsibility goals [GRI 3.5].

About This Web Update

This report covers the calendar year 2006 and includes data from earlier years where available [GRI 2.11]. This update, like our 2005 web update and 2004 printed report, is based on the Global Reporting Initiative (GRI) standard [GRI 2.12]. Similar to last year's update, this update is based on a standard that we call "GRI-lite." The numbers you see in brackets throughout our report, e.g. "[GRI 2.12]," follow those items in the report that address the corresponding section of the GRI standard.

The idea for using a GRI-lite approach in our reporting grew out of our 2004 CERES Award-winning 2004 report. We invested significant funds and staff time in the creation of that report but received virtually no feedback, press coverage, or even comments from our peers in the corporate responsibility movement. Disappointed by the deafening silence, we developed a report format that would require fewer human and financial internal resources. While the result is less inclusive than the 2004 report, we are nonetheless still employing many of the GRI principles in its preparation, including the keystones of transparency, inclusiveness, relevance, accuracy, neutrality, and comparability [GRI 2.17].

In our view, the notion of printing a 60-page GRI report makes little sense for a company of our size. We know there are other small socially conscious companies like ourselves whose GRI reports will not be read cover to cover but who want to advance "corporate consciousness" thoughtfully and pragmatically. That's why we began a discussion with CERES and a group of other companies on how to approach corporate responsibility from a "systems" perspective. We conducted a two-day retreat early in 2007 with this group to explore a collaboration that would evolve the present state of corporate responsibility.

Report Assurance

Many of our environmental indicator performance metrics take advantage of the Company's new Materials, Ingredients and Packaging (MIPs) database, which provides us with accurate information on the materials used in our products. As a small company, we chose not to independently assure our report, and have relied instead on our corporate consciousness team to review and substantiate the report's accuracy and authenticity. [GRI 2.20 & GRI 2.21]

Stakeholder Consultation

Our corporate consciousness team has identified our employees, our investors, our consumers, our suppliers, NGO organizations, local communities, industry associations, and corporate responsibility experts as our chief stakeholders [GRI 2.9 & GRI 3.9]. We did not engage these stakeholders in a consultation process for this report. [GRI 3.10] Discussions with our Ceres stakeholders did occur and the feedback from that engagement is included in this report. [GRI 3.11].

Overview of 2006 Corporate Consciousness Efforts

2006 was a year to celebrate! We moved into our beautiful new office building in February and marked the grand opening of our new space with our vendors and the external community. We're also well on the way to obtaining LEED (Leadership in Energy and Environmental Design) "Gold" certification for our new facility.

In producing this report, we want to highlight our 2006 accomplishments and inform you about the progress we've achieved toward the goals we set in our 2005 report. The table below summarizes our corporate responsibility performance in 2006. It was a good year for us in many categories. From a financial standpoint, we grew significantly, increasing revenues by 28%. Environmentally, we advanced many of our objectives for replacing petroleum-based ingredients in our cleaning products. From a social perspective, our employees continue to be engaged in efforts to integrate our values into the fabric of our business and our supply chain.

While our achievements were significant, we did not accomplish everything we had hoped to do. For example, though we increased female representation in management, we did not increase racial or ethnic diversity in the company. From an environmental perspective, we still have ingredients in our products that are derived from synthetic sources. Finding substitutes is a laborious process and one that we continue to aggressively pursue.

During 2007, we will partner with a team of design consultants to develop a new package design centered on a strong environmental and sustainability paradigm. We are working with a clinical aromalogist to develop a line of scents based on whole, natural plant oils. We are also planning to introduce several new products including a double concentrated liquid laundry, training pants, and a newborn sized diaper. We continue to increase the authenticity of our products, extending the cold-water performance of our laundry powder, and reducing the use of petroleum-based materials.

One of the company's pursuits for 2007 is "to develop a reduction program that educates employees and manufacturing partners about how they can impact their carbon foot print and supports their reduction in a way that is engaging so that we can keep the issue of global warming on top of mind and set aggressive goals for reduction beginning in 2007 in a creative exciting manner." We will deepen these climate protection efforts by working with our Tier 1 suppliers to calculate their carbon footprint and develop processes for reducing supply-chain related greenhouse gas emissions. Our *Carbon 42 Team* will kick off an employee-centered effort called 20/20 by 2010 to help Seventh Generation employees track and reduce their own household greenhouse gas emissions by 20% by 2010. We will also set goals and begin designing strategies for greenhouse gas emissions in all other areas of operations. [GRI 3.19].

2006 Performance Highlights

Impact Area	Aspect	2006 Performance Highlights	Trend
Environment	Formulation Improvement	Modified all liquid laundry formulations to work with high efficiency washing machines.	↑
	Natural Ingredients	Replaced petrochemical-based ingredients with vegetable-sourced materials in several products. Eliminated synthetic mint fragrance in our Toilet Bowl Cleaner.	↑
	Environmental Savings	By purchasing our products instead of traditional brands, our customers are making a difference. In 2006, the sale of Seventh Generation products helped save: 93,000 trees - about 930 football fields of trees 33,842,000 gallons of water - enough for 266 families for a year. 58,000 millions of BTUs - a year of energy for 930 households 268,000 gallons of petroleum – fuel for 455 cars for a year.	↑
Supply Chain	CR Engagement	Introduced our Manufacturer Partner Annual Report to our suppliers, which includes 14 corporate consciousness areas.	↗
	Sourcing	Audited the forest stewardship practices of the supplier that manufactures virgin pulp for our diapers. Identified and reduced a source of chlorinated hydrocarbons (AOX) in our chlorine free pulp.	↑
Integrated	Activism	Inspiring the next generation of activists through our Change It! partnership with Greenpeace.	↑
	Corporate Essence	Developing a deeper sense of our company's true being.	
Social	Diversity and Inclusion	Increased female representation in management and senior management levels. Our workforce remains less ethnically and racially diverse than the surrounding community.	→
	Employees	Added 11 new positions	↑
Economic	Sales	Grew by 28% in 2006	↑
	Margin	Since 2001, increased our revenues over 200% and our operating income over 600%.	↑
	Market Share	For the one-year period ending December 2006, our sales represented 46% of the total cleaning, paper, and personal care categories combined, and sold in the natural product channel.	↑

Key: Met Goal (s)
Progress Towards Meeting Goal(s)
Limited Progress Meeting Goal(s)

Stories from 2006

Change It

In line with our mission to “consider the impact of our decisions on the next seven generations,” we celebrate Earth Day by funding training for the future leaders of our nation. Teaming with the nation's leading environmental campaign organization, Greenpeace, Seventh Generation has developed Change It, an intensive one-week educational experience in which students travel to Washington, D.C. to learn effective grassroots lobbying techniques. The purpose of Change-It is to train and sustain the next generation of “change agents” through comprehensive and active

education so that a viral movement of regenerative and systemic social and environmental change is created.

By recruiting committed student leaders, providing them with exceptional training, enlisting them in systems changing campaigns, and engaging them through continued support, we believe we can most effectively achieve significant environmental and social change.

Change It began in 2006 and was an immediate and overwhelming success. From a pool of 420 applicants, 100 winners from around the country were selected to participate in this one week adventure. Eligible participants were students between 18 to 24 years of age who were currently enrolled in school. Selections were based on each student's application and the passion for environmental and social concerns that it expressed. Chosen applicants were enrolled in the program free of cost, courtesy of Seventh Generation. The expenses paid included carbon offsets for the travel involved in getting participants to Washington.

The 2006 Change It program involved training from experts at Greenpeace as well as educational lectures by numerous guest speakers specializing in environmental and social justice, including Seventh Generation President, Jeffrey Hollender. One action taken by last year's Change It was the formation of a human arrow pointing toward the Capital with signs "Global Warming Starts Here" and "Global Warming Can Stop Here."

In the wake of our inaugural Change It program, the number of applicants to the 2007 program nearly tripled and for that reason we expanded the program and its enrollment, accepting 200 of 1200 applicants. This remarkable success has been an enormous inspiration to everyone at the company and fulfilled our hopes that the effects of our effort would continue to reverberate long after Earth Day. Indeed, alumni of last year's Change It program are already active in their local communities, and have become, to paraphrase Mahatma Gandhi, the change they wish to see in the world. Change It alumni have gone on to everything from positions in the EPA to organizing environmental justice programs at their universities and colleges.

Ultimately we judge the impact and value of the program by the activities of the participants following their involvement. There are many stories to tell here. One such story is that of Charlotte Ely, Co-Founder and Board Member of Replant New Orleans (www.replantneworleans.org), a non-profit which started-up in October 2006 shortly after the conclusion of the 2006 Change It program and is working on urban reforestation in Katrina-devastated areas of New Orleans.

Seventh Generation and Greenpeace will continue to sponsor this educational program and facilitate its inspiring results.

Corporate Consciousness Project Initiatives

Area	Aspect	Initiative Summary	Anticipated Target Completion	2006 Progress
Environmental	Products	Develop an ingredient sustainability scoring system	2008	Budgeted
	Natural Ingredients	Find natural-based substitutes for the few remaining synthetic-based materials in our products.	2007	In-Process
	Toxics	Research new preservative system for liquid cleaners	2008	In-Process
Supply Chain	CR Evaluation	Evaluate all North American Tier 1 suppliers using our Manufacturing Partner Annual Report process	2007	In-Process
	Sustainable Agriculture	Source sustainable palm oil for our surfactant ingredients.	2009	Initiated
Social	Community	Hire staff to design and begin implement a community volunteer program	2007	Person Hired
	Community	Hire dedicated person to run the company donations program	2007	Person Hired
Economic	Grocery Channel	We are accelerating our momentum in the Grocery Channel in 2007.	2007	Added new members to our community to lead and support this opportunity.
	ERP System	Planning and identifying our requirements for the replacement of the company's enterprise resource planning (ERP) system.	2008	In-process
Integrated	Corporate Essence & Direction	Deepen and deploy system thinking tools in our company	2006/2007	In-process
	Climate Change	Introduce employee oriented household greenhouse gas reduction program	2007	Initiated

Corporate Consciousness in our Supply Chain

In 2006, we introduced our new *Manufacturing Partner Annual Report* (MPAR) to our nine North American suppliers [GRI 3.16]. The Report is an evaluation tool used by our quality assurance department to assess our suppliers in an integrated fashion. We use the tool to grade our manufacturers in the key areas of Corporate Responsibility, Manufacturing Capability, Quality Assurance, Purchasing/Logistics, and Product Development (see Table x). We modeled the corporate responsibility section of this protocol in part on the GRI, and will use this tool to evaluate our manufacturing partners on issues that include energy use, greenhouse gas generation, waste production, wages and benefits, employee turnover, and training and advancement [HR3].

Table X: Manufacturing Partner Annual Report Evaluation Areas

Assessment Section	Number of Areas Evaluated	Sample Evaluation Areas
Corporate Responsibility	14	Energy, Greenhouse Gases, Waste, Wages and Benefits, Employee Turnover, Training and Advancement.
Manufacturing Capability	5	Production Capacity, Transparency, Collaboration, Continuous Improvement
Quality Assurance	12	Traceability & Recall Capability, Consumer Complaint Rate, Process Control Methods, Corrective Action Process.
Purchasing/Logistics	8	Fill Rate, On Time Rate, Customer Satisfaction Plan, Electronic Data Interface (EDI)
Product Development	4	Existing Product Development Program, Willingness to Develop Products, Transparency of Technology Developments

Our quality team creates scores for each individual evaluation area and then adds these scores together to develop a total score for that section. The total scores for each of the five major assessment sections are then used to develop an overall manufacturing partner score.

Our original plan was to simply mail the MPAR forms to our manufacturers and set up a date to conduct the evaluation. However, we found that once our manufacturers looked at the report, they had no idea where to start. As our project leader Daron Byerly said, "It's a meaty cross-functional project. I can't imagine how I would handle something like this showing up in my in-box." So we shifted gears and decided that introducing the MPAR in-person would have a number of benefits, not the least of which was that in doing so we would command the attention of a broader group of company representatives and engage in a deeper dialogue about our expectations [GRI 3.19]. So in 2006, we held face-to-face meetings with our partners to discuss the audit process, solicit their cooperation, and help them apply the audit to their situation. In 2007, we will conduct the first round of actual audits, and will complete 100% of these supplier audits by the end of 2007.

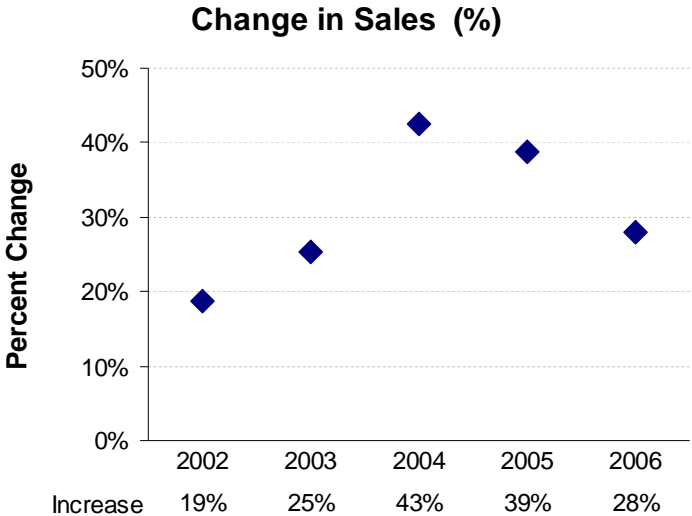
Our team is also using the MPAR as part of the qualification process for new manufacturers. This year our production team used the MPAR as a means to screen new vendors. By incorporating it into the initial visit, we can articulate our social responsibility expectations at the start of a new relationship. We want both our new and existing vendors to use this tool to track their own

progress. Undoubtedly we will learn more as we implement this system, but we see it as an important step in aligning our corporate direction with the business systems of our manufacturers.

Economic Performance

Last year our sales increased by 28%. Over the past five years, the Company has experienced significant improvements in its financial performance as a result of increased sales growth and increasing operating efficiencies. Gross sales continued to hit double digit growth in all major channels and our operating income set a Company history record. Since 2001, we've increased our revenues over 200% and our operating income has increased over 600%. The Company's projected goals for sales growth in 2008-2010 is 40%, 35% respectively.

In the natural foods channel, we are the brand leader in almost every category in which we compete. Our market share, as measured by SPINS for the 52-week period ending December 2006 (excluding private label products which SPINS does not track), grew by 1 share point from last year, and now represents 46% of the total natural foods cleaning, paper, and personal care categories combined. In 2006, our share of the cleaning products category was 38%, our paper category share was 54%, and our personal care (feminine hygiene, diapers and wipes) category share was 59%. In addition to these personal milestones, our company's growth has contributed substantially to the growth of the categories in which we compete.



The grocery channel continued its strong performance in 2006, exceeding 2005 revenue by over 50%. This growth was driven by a combination of new accounts and new item growth within our existing customer base. The Internet channel grew by over 60% due to the decision by certain key new on-line customers to carry our baby care products. The International Channel also had an amazing year with growth over 100% from prior year as a result of new product sales primarily in Canada. These impressive results and the brand awareness of the company itself lead many to believe that our company is much larger than it is. Yet in truth, we have not yet reached \$100 million in sales [GRI EC1].

We have invested in the development and implementation of several new processes, systems, and initiatives to provide better financial information and insights to the organization. These include:

1. A three-year strategic plan that focuses on several key pursuits and which will provide direction to our company when making decisions and a tool by which we can measure our progress against stated objectives.
2. A new product innovation process that provides the vision and the roadmap for all existing and future product development.
3. Continued advancements in the growth and development of our internal community. In 2006, we added 11 new people to the organization while focusing on employee capability-building through ongoing training and development efforts.

Looking ahead, we will accelerate our momentum in the Grocery Channel in 2007. Because people remain the key to our current growth and future success, we have added new members to our company community to lead and support this opportunity. We also plan to identify our requirements for the replacement of our enterprise resource planning (ERP) system with an implementation expected in 2008. A new ERP system will dramatically improve our ability to manage all aspects of our business from sales and logistics to corporate consciousness, customer service, and beyond.

Environmental Integrity

Our Impacts

Our small headquarters creates relatively few environmental impacts. Instead, the lion's share of our impacts occur in our supply chain and in the transportation, use, and disposal of our products.

Though we have some control over the formulation of most of our products, we don't control the facilities in which they're manufactured. In many cases, our relatively small production volumes limit our influence over those facilities' operations. However, we are increasingly working with our suppliers to help them examine their materials and manufacturing methods.

We've also considered the fact that we sell several disposable products. In many cases, cloth napkins or sponges are better for the environment than paper napkins or paper towels, and there is no shortage of arguments about the benefits of cloth diapers over disposables. Nevertheless, we all use some disposable products, and our aim is to manufacture those that are used in the manner that is safest for consumers and the environment.

This section examines:

- *Our product design standards*
- *The materials that go into our products*
- *Our carbon footprint*
- *The Impacts of transporting our products*
- *The Impacts of our products themselves*
- *Our supply chain's social and environmental impacts*

Product Design

We employ strict product development standards that screen out harmful materials from both our products and the processes used to make them, and we've made the Precautionary Principle a key lynchpin of this product development process. We will not use any ingredients in our products that have not been adequately evaluated for safety [GRI 3.13]. Our product development standards (see below) and our years of research and analysis guide us in selecting safer materials [GRI PR1].

Our Product Development Standards

Vegetable derived. Ingredients are vegetable-based but may be modified with petrochemical or mineral components to improve performance.

Non-hazardous to the environment. Ingredients should not contribute to any known environmental hazard such as ozone layer depletion, endocrine disruption (hormone-mimicking), or aquatic toxicity, and should minimize contributions to global warming and resource depletion.

Biodegradable. To avoid accumulation in the environment, ingredients should be readily biodegradable.

Phosphate-free. Because of their contribution to eutrophication in sensitive rivers, lakes, estuaries, and other fresh-water bodies, phosphates are not permitted in any Seventh Generation product.

Chlorine-free. Because of their contribution to organohalides that persist in the environment, chlorine and related substances are not knowingly permitted in Seventh Generation products. Paper products must be made with chlorine free processes.

Not acutely toxic as used in the cleaning formulation. Seventh Generation products are not acutely toxic as defined by the Consumer Product Safety Commission (CPSC) for oral, dermal, and inhalation routes of exposure.

Not chronically toxic, as defined by the Consumer Product Safety Commission, including not carcinogenic, not reprotoxic, not neurotoxic, and not teratogenic.

Hypoallergenic as used in the cleaning formulation.

Stories from 2006

Formaldehyde

In April of 2006, one of our retailers approached us in a quandary: A competitor had analyzed our products and claims to find both formaldehyde and petroleum hydrocarbons. The retailer asked us to explain how this could be.

We suspected that the tests used weren't able to accurately gauge the products in question. Indeed, when we conducted the same tests ourselves, we found that the formaldehyde levels they reported were significantly higher than those trace amounts that we calculated were actually present as a result of the petroleum-based preservative we use. Since more accurate tests did not exist, which meant that tests on our product would always produce false positive results, we decided to find a new preservative that contained zero formaldehyde, a process in which we are still engaged. We determined there were two sources of formaldehyde in our product: with our ingredients suppliers and with our manufacturers.

Ingredient Suppliers

To our surprise and consternation, we determined that three out of four of our surfactant partners were in fact adding it to the ingredients they sold us as a preservative. Unbeknownst to us, this is a common but little known industry practice. We then tested competitive products and found that many of them also contained measurable levels of formaldehyde. We told our ingredients manufacturers that they could not use formaldehyde in any materials we purchased. As a result, these manufacturers now use Kathon CG, a formaldehyde-free synthetic preservative that is commonly found in household cleaners and cosmetics. Kathon CG is not a perfect choice, but it has provided a short-term solution to the issue of formaldehyde while we search for a better alternative.

Manufacturing Partners

So, we tracked and fixed the formaldehyde issue with our surfactant suppliers, but still had to deal with the small amounts of formaldehyde released by the preservative we use in manufacturing our products.

In June of 2006, we switched to the alternative preservative, Kathon CG, for all our products. Almost immediately, we received reports of a malodorous smell in several products. We traced this odor to microbial growth in several formulas, a sign that Kathon CG was, in some cases, ineffective. As a result, in August 2006 we switched back to our original preservative. So while the alternative Kathon CG worked to prevent microbial growth further back in our supply chain, it failed to adequately protect product on the store shelf and in the home. Shortly after this issue came to the

forefront, we began searching for a new sustainable preservative with help from McDonough Braungart Design Chemistry, experts in green chemistry, and with help from the Environmental Protection Agency Design for the Environment group. We'll let you know next year what results this effort yields.

With regard to the hydrocarbons allegedly found, we simply could not figure out why such petroleum elements were detected, because we absolutely do not use them and neither do our manufacturing partners. As was the case with formaldehyde, there isn't a good test for petroleum hydrocarbons in our products. And while we suspect it is the testing itself that may account for what we believe is a false positive result, we are still searching for answers.

Our Materials

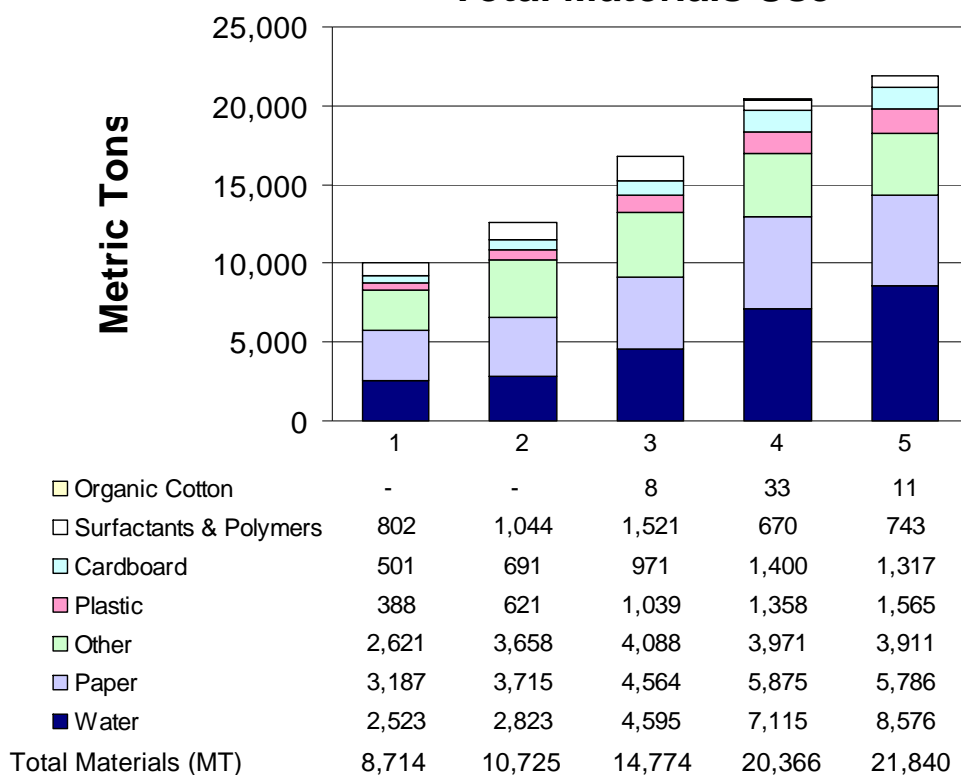
To the greatest extent possible, our cleaning products are made from non-toxic, readily biodegradable and environmentally low impact ingredients. Most of these ingredients are plant-based rather than petroleum-based, and we are actively working to identify those additional vegetable-based alternatives that would allow us to reach the 100% mark. Plant-derived ingredients can be sustainably harvested and are far less damaging to the environment than compounds derived from petroleum, a material whose extraction, refining, and transport creates many hazards. Our products are hypoallergenic, and chlorine- and phosphate-free. Most of our surfactants are coconut oil- or palm kernel oil-based.

Our paper products are made from 100% recycled paper, with an average of 80% post-consumer content. Making paper from paper requires far less energy and water, and produces much less pollution than making paper from trees. Making paper from paper also preserves forests and helps close the recycling loop by creating an end use for the paper people recycle in their communities.

We've chosen what we believe are the three most important indicators to track our materials performance: total materials used, use of recycled materials, and materials derived from renewable resources [EN1, EN2]. During most years, as our sales have grown, so have our total materials use. Calendar year 2006 continued this trend, with overall materials use increasing by 7%¹. We also saw greater growth in our cleaning products compared with our paper products.

Our cleaners and paper products are made from the lowest impact materials of which we're aware.

Total Materials Use

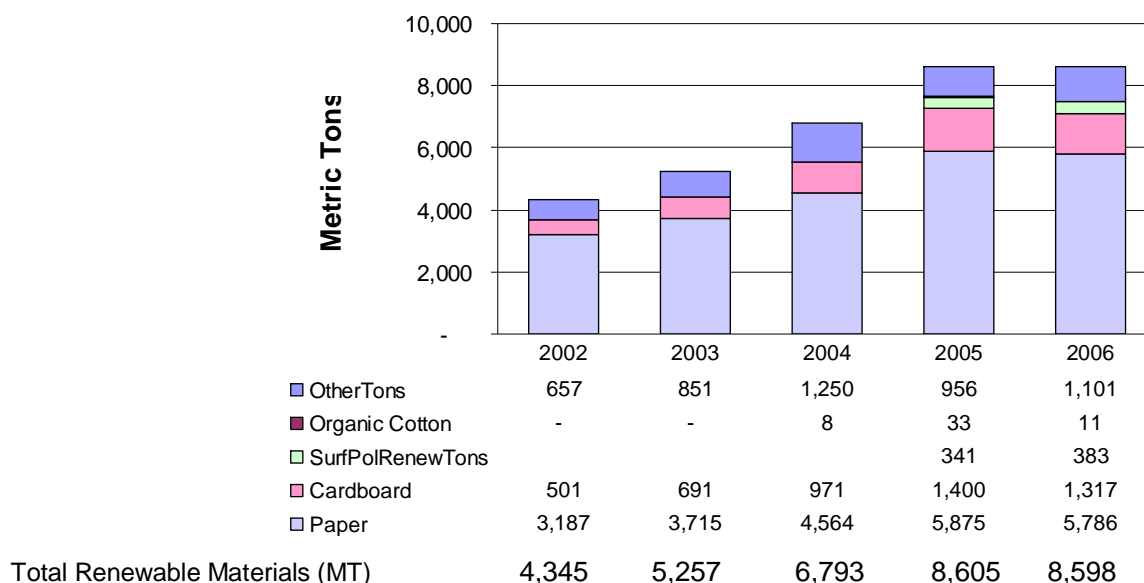


¹ Our materials use data is based on units ordered. While this method is roughly 95% accurate, we anxiously await our new ERP system expected in 2008. The ERP system will allow us to use shipment data instead.

Renewable and Recycled Materials

We are committed to making products from renewable resources whenever possible. The renewable materials we use include paper, cardboard, and vegetable-based surfactants. Though we use far fewer quantities of non-renewable materials in our products than our mainstream competitors, we have not been able to completely eliminate them. Our use of such resources includes the petroleum modifiers and minerals in some of our cleaning products, and the synthetics in our diapers and wipes.

Renewable Materials (excluding water)

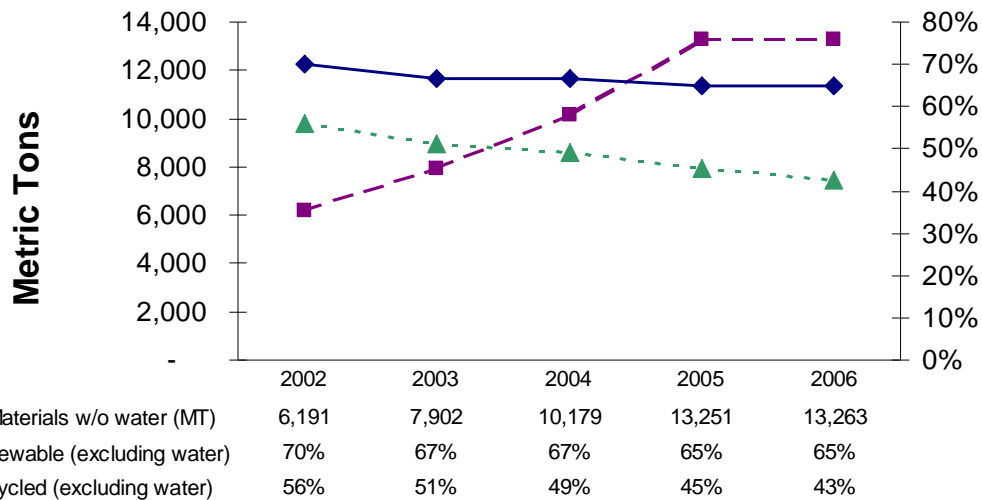


We believe strongly in “closing the loop” by using the largest possible percentage of recycled materials in our products. From 2002 to 2006, our growing sales resulted in an increased use of recycled materials from 3,470 to 5,647 metric tons – an increase of 2,177 tons. The majority of our paper products are made from 80% post-consumer and 20% pre-consumer recycled paper. Our trash bags, cardboard, and packaging also contain recycled materials.

Our organic cotton data is for products ordered rather than products shipped. Part of this will be rectified with the new ERP system being implemented in 2008. However, sales of our feminine products, the destination of the organic cotton we use, have not decreased, so this is something we will look into for our 2007 report.

While our overall use of recycled and renewable materials has grown, the percent recycled and percent renewable has contracted slightly in the past few years. This is due to the fact that cleaning products and diapers, which contain on a weight-percentage basis fewer renewables and recyclables than our paper products, have been the product categories that have grown the most in recent years. The fluff pulp used in our diapers is not recycled material because recycled stock does not have the needed absorbent properties.

Recycled and Renewable Materials



Stories from 2006

Tracking Our Materials, Ingredients and Packaging

In 2004, our corporate responsibility team found that calculating our company's various impacts and sustainability indicators (e.g., tons of recycled materials used, renewable materials used, etc.) ate up a significant amount of time and resources. We knew there had to be a better way to track our materials' impacts than on complex spreadsheets that took forever to fill in.

As a result, in 2006, we developed our Materials, Ingredients, and Packaging database (MIP). MIP tracks all the components incorporated into every product we sell. This new lens breaks down our products into their individual parts so that we can assess the sources, sustainability, percentage of recycled material, greenhouse gas burdens and other attributes of each and accurately determine the ultimate sustainability of the final product itself. This new analytical tool has helped us make large strides in gauging not only the specific sustainability of each of our products but also that of our company as a whole.

We also use the MIP database to evaluate the benefits from changes in our packaging or ingredients. For example, when we increased the post consumer recycled content in our plastic bottles, we were able to quickly forecast the amount of plastic resin required and the greenhouse gas benefits we'd realize from using recycled sources for it. The system gave us the ability to look not just at the plastic involved in one bottle of dish soap, but also at the total amount of plastic used in all our products and the total greenhouse gas emissions saved during its production. By telling us which materials, ingredients or packing pieces have the highest greenhouse gas burdens, our MIP database was able to help us wring maximum positive impacts from our packaging redesign effort.

Having completed MIP Database 1.0 in early 2006, we've begun work on the next iteration of our system. These enhancements will let us track the flow of materials for each of our products from one manufacturing partner to the next in the chain of production and enable us to assess the total greenhouse gas burdens and other environmental and social impacts associated with each stage of the process from the initial extraction or creation of raw materials to the shipment of the final products to store shelves. We see this detailed level of traceability and transparency as the key to connecting us to our sourcing and ensuring that our products are made in the most fully conscious and environmentally benign way possible.

Biodiversity

Though we use mostly renewable ingredients in our products, such materials are not impact-free. Modern agricultural and forestry operations can employ dangerous pesticides and have the potential to reduce biodiversity. The two main concerns our supply chain presents are the possible impacts from our use of vegetable materials to create the surfactants for our cleaners and the use of virgin (non-recycled) paper fiber in our diaper products. [EN7]

Our plant-based surfactants are made from palm kernel oil or coconut oil. Cultivation of these and other vegetable oil crops has increased faster than any other type of food or industrial agricultural crop in the past 40 years. In preparing our 2004 report, we learned that new plantations in Malaysia and Indonesia have devastated large areas of tropical forest, threatened the region's biodiversity, and decimated indigenous communities. The worst of these plantations reportedly use toxic pesticides and force employees to work in dire conditions.

Currently we have not been able to source sustainably produced palm-based surfactants. Palm oils are commodity products and the supply chain mixes oils from different sources together – making it economically and logistically impossible to identify and source sustainable palm oils. Fortunately, the Roundtable on Sustainable Palm Oil (www.rspo.org) has begun working with the entire value chain to establish sustainability growing standards and a market mechanism to procure palm oils grown to this standard. The Roundtable reports that certificates for the first certified palm oils may be available in 2008. This year we met with our surfactant suppliers to express our interest in sourcing responsible palm oils with an eye towards procuring it as soon as it becomes available. By 2008/9 we will have a strategy for moving toward sustainable palm or coconut oil. We have not joined Roundtable on Sustainable Palm Oil, but know this is getting more attention from the media.

Our diapers use Finnish virgin wood fiber. The Finnish forest sector prides itself on its sustainable forestry and uses a national certification standard known as the Pan-European Forest Certification (PEFC) under which 95% of the country's forests are managed. However, according to Greenpeace and other advocates, there are serious problems with the PEFC, and we have come to believe that the standard does not guarantee responsible timber management. According to many NGOs, logging under the PEFC threatens Finland's biodiversity and the traditional rights of the indigenous Sámi people. These advocates also contend that the PEFC continues to allow logging in unprotected old-growth forests and other high conservation-value forests. We take these allegations seriously. In 2006 we hired Forest Ethics to conduct an independent evaluation of our supplier's processing and sourcing. Forest Ethics conducted its evaluation in August 2006, and found that our supplier met

our stringent standards. We did identify some minor concerns that our supplier has pledged to address (see Forest Ethics story).

2006 Stories

Forest Ethics

In 2005, we had two issues with our diapers and feminine care products (liners and pads): The first was that these products were being made with non-recycled virgin pulp obtained from trees. We were concerned about the ecological integrity of the forestry resources from which this pulp was being obtained. In 2006 we partnered with Forest Ethics <http://www.forestethics.org/>, (FE), an independent forestry and conservation organization, to make sure that the pulp we used was being sustainably and responsibly harvested.

The second issue related to the Chlorine-Free processing of our pulp. "Chlorine-Free" means this pulp is not bleached with chlorine, yet our tests of the final product found it contained 30-40 parts per million of Total Organic Halocarbons (TOX), a class of toxic chlorine-bleaching byproducts whose presence is an indicator of chlorine use. While this is less than a quarter of the TOX levels typically found in conventional paper products.

In August of 2006, our chief chemist, Martin Wolf, went to Finland with Forest Ethics to visit Rauma Cell, the facility that manufactures our chlorine free pulp, to investigate this baffling situation. We found that Rauma Cell was also processing something called elemental chlorine free (ECF) pulp on the same production line. This pulp is bleached with somewhat safer chlorine dioxide that produces lower levels of TOX than antiquated elemental chlorine bleaching. We discovered that because the facility responsibly recycles its process water, the TOX it contained was also being "recycled" and contaminating our chlorine free pulp. As a result of our investigation, Rauma Cell agreed to give us only chlorine free pulp from the end of each chlorine free run, when the level of contamination was lowest. We have measured TOX levels in our products twice since the trip, and have confirmed that this approach is working.

During that same visit, Martin and FE reviewed the forestry practices of the companies supplying wood to the mill. Several issue areas were evaluated. First was whether or not any wood was coming from high conservation value (HCV) forests. The second was whether any of the wood was being sourced from regions where there were negative social impacts associated with timber harvests. The third was whether wood was being harvested sustainably, that is, grown faster than it was being cut. And the fourth was whether ecosystems and biodiversity were being protected where wood was being harvested.

Through interviews with key company personnel and field trips to observe harvesting operations, we found that over 95% of the wood being used for our pulp came from well managed forests within 50 kilometers of the mill. There were no issues relating to HCV forest lands or social concerns. Of the remaining 5%, 2% came from Sweden and 2% came from West Europe. The final 1% came from other sources, primarily from Finland, but we found that this 1% could be associated with the following problems:

- It appeared that scrap wood from a third party in Russia could have gotten mixed in with wood from other sources. This presented the potential for a very small portion of the wood in our pulp to have come from illegally logged HCV forest in Russia.

In terms of sustainability, both UPM and Metsalitto (the companies who obtain the wood for Rauma Cell) have forest management plans that ensure the rate of logging is less than the rate of growth. The forests are mapped in 1 hectare grids. A section will be clear-cut, then allowed to recover for 80-100 years before being clear-cut again. Thinning those sections is done at 20 and 40 years. UPM was found to have a significant interest in biodiversity, and this was on ample display in the form of managed forests that were more vibrant and diverse than Metsalitto-managed forests.

Seventh Generation plans to work with UPM and Metsalitto to assure that absolutely no HCV wood is used in Seventh Generation products, and to work with Metsalitto to improve forest biodiversity. A trip to Finland to discuss these findings and monitor progress is planned for later this year.

ForestEthics Staff



Regulatory Compliance

We pride ourselves in staying ahead of regulatory trends and had no incidents of or fines for non-compliance with any international declarations, conventions, or treaties, or any national, state, regional, or local regulations associated with environmental issues [EN16]. Through our Manufacturing Partner Annual Report (MPAR) process, we also evaluate the compliance programs of our suppliers. In reality, however, we expect much more of ourselves and our suppliers than mere compliance to regulations that we often feel are not stringent enough to fully and properly protect public health. A key MPAR goal is to align our suppliers with our own quest to move beyond simply obeying existing regulations and become a more fully regenerative company.

Evaluating our Products

Our greatest environmental impacts occur in our supply chain and in the end-of-life use and disposal of our products. In preparing product life cycle inventory data for our 2004 report, we learned that our recycled paper-manufacturing creates our largest environmental impacts.

A life cycle inventory looks at the environmental burdens associated with each stage of a product's life from creation and transportation to use and disposal.

Paper Products

Our paper products are made from 100% recycled paper, and our objective is to use a minimum of 80% post-consumer content. These recycled products require significantly less resources to produce than traditional paper products made from virgin fiber. Our paper products (bathroom tissue, paper towels, napkins, facial tissues, and paper plates) comprise roughly 40% of our annual sales.

The paper manufacturing process is the step in the process that generates our greatest impacts

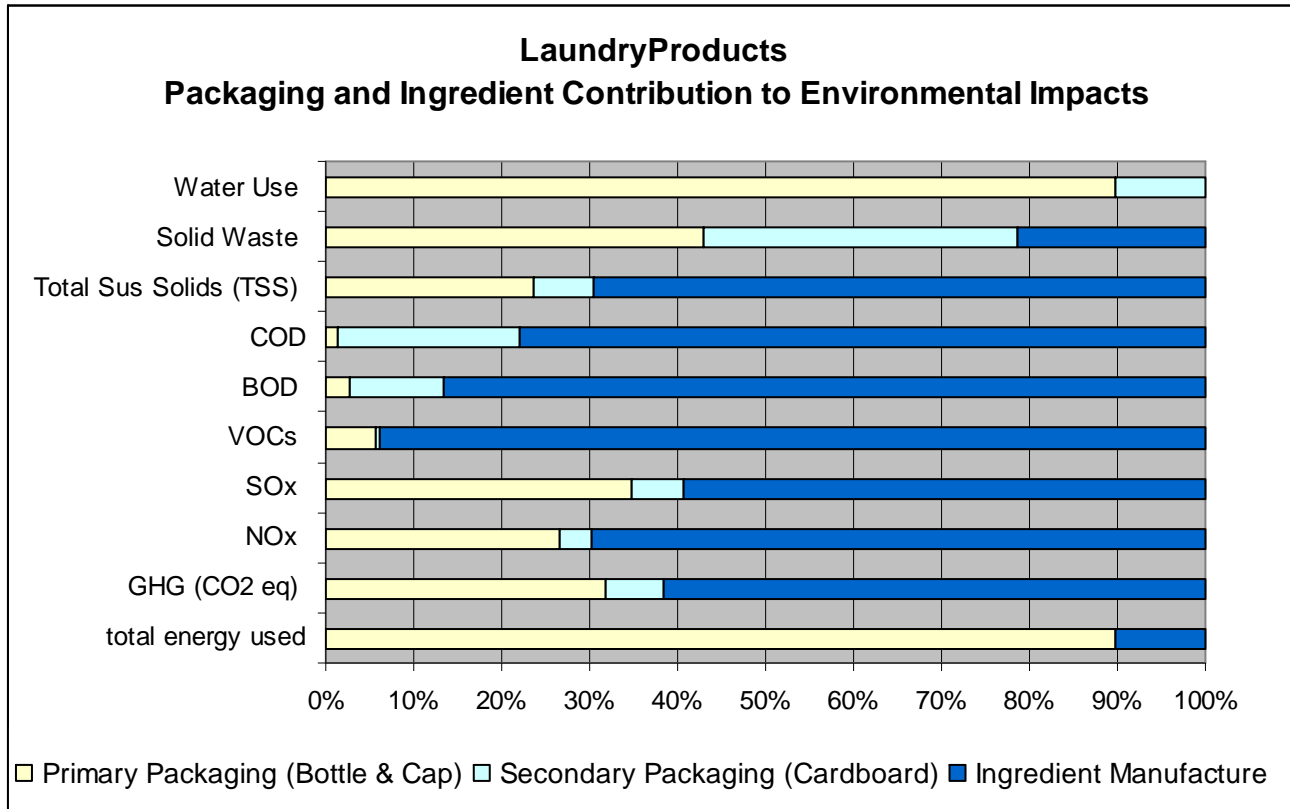
Our lifecycle studies show that our paper products' greatest environmental impacts occur in the manufacturing phase. In addition, fossil fuel and solid waste impacts are created by the manufacture and landfill disposal of the plastic wrap packaging they used. We plan on using our Manufacturing Partner Annual Report as a vehicle for working with our manufacturing partners to reduce our impacts in this area.

Cleaners

Unlike many traditional cleaners, Seventh Generation's vegetable-based liquid dishwashing and laundry detergents are non-toxic, biodegradable, and do not contain chlorine, phosphates or optical brighteners. Our surfactants are based on renewable palm kernel and coconut oils.

Last year we updated our lifecycle inventory to examine the benefits of switching to packaging made from recycled content. We used data from published studies in the U.S. and Europe rather than information directly provided by our manufacturing partners. Our inventory encompasses the harvest of the natural oils we use, the manufacture of our surfactants, the manufacture of the plastics used in our bottles and caps, and the manufacture of cardboard shipping cartons.

We discovered that two phases of our production process accounted for most of our impacts: the manufacture of our products' ingredients and the manufacture of plastic resin for our bottles. A complete redesign of our packaging is on the horizon for 2008. Its goal will be to identify and employ more environmentally friendly materials in order to reduce our packaging impacts.



2006 Stories

Doing Like Nature Does

As its name implies, biomimicry is the art of modeling human systems and the things they produce on those found in the natural world. It's based on the belief that the processes of nature, having evolved over 3.8 billion years, represent a state of optimum efficiency and harmonious balance, and therefore serve as ideal prototypes for similar human endeavors. When we look to the natural world for inspiration, we discover unique alternative solutions to the challenges we face that replace negative results with positive outcomes.

As our company continues to work toward peaceful coexistence with the environment that supports us, we have turned to biomimicry for the answers we seek. As part of this effort and to further our knowledge of the subject, in 2006 we held a two-day, full-company design charrette with Janine Benyus (author of *Biomimicry: Innovation Inspired by Nature*) and Dayna Baumeister of the Biomimicry Guild. As part of this experience, we spent a day spent exploring our nearby forests, where we studied how nature cleans itself and considered how these methods could lead to better product design.

We also sent three team members, Dan, Daron and Penny, to the Teddy Roosevelt Memorial Ranch in Dupuyer, Montana for a course called "Biologists at the Design Table." This intensive week-long session introduced its participants to the biomimicry way of thinking. Daron reflected that the experience built "a lively, invaluable, and robust human ecotone between biology and industry, between nature's wisdom and modern human challenges."

Through efforts like these, we are slowly incorporating the ideas that biomimicry offers into all facets of our operation and using them to both enhance our design processes and products in new and unconventional ways, and better synchronize our connection to the Earth.

The results of our experiment have so far been quite successful. Our employees are beginning to instinctively think in biological ways, and we are using biomimicry to inspire new packaging designs currently under development. By studying how nature packages its "products", we are finding more efficient ways to package our own. We're calling this initiative the "A to Z Program", which stands for Amoeba to Zebra (a term we borrowed from the Biomimicry Guild) and everything in between.

To launch the project, the Biomimicry Guild conducted a special study that examined "packaging" in the natural world with a special emphasis on liquids and powders. After researching life forms from pelicans to blowfish, the Guild was able to suggest many natural strategies that could be incorporated into our product packaging. Related to biomimicry, we've also continued our work looking for natural products we might include that serve the functions we would like for cleaning. For example, one finding we will soon be adopting is the addition of a chicory-based material to our automatic dish powder. This natural derivative has unique antiscaling abilities, and metal sequestration and dispersion properties yet is non-toxic and readily biodegradable. It is an ideal ingredient for a natural cleaner and proof that in the natural world we can find not only the best solution to the challenges our products face but also the perfect way to keep us in sync with the natural world and remain continually enlightened by all it has to teach us.

The Biomimicry Guild speaks about working with Seventh Generation - Dayna Baumeister

Ah, what a refreshing clean organization to work with! When Janine and I were first contacted by Seventh Generation we were thrilled to work with a company that had already demonstrated a deep commitment to sustainability. Over the last year we've had a number of interactions with their staff and remain just as enthusiastic as day one. The deep seeded belief in creating and proving the possibilities of a sustainable business runs through all the staff we had the pleasure to meet and train.

Walks through the woods provided a refreshing way to introduce everyday business concepts in a natural setting. But it was more than beautiful, the Vermont woods (Seventh Generation's backyard) became an inspirational, informative teacher. Discussions on resilience and diversity in the forest led to conversations on what type of company Seventh Generation would evolve into over the next decade, even century. A long visit at the beaver pond helped the group explore ways in which Seventh Generation could enhance habitat, going beyond just not causing harm.

We also were able to take these discussions towards fruition by working tangibly on a packaging endeavor. We discovered over fifty different unique ways nature packages and disperses liquids and powders, which Seventh Generation sent on to their design team. We are really looking forward to the new innovations to emerge. It's been a great joy to work with Seventh Generation. There were a

few surprises when “standard” business practices reared their heads at our alternative approaches, but we are confident in the symbiosis formed and look forward to taking more walks in the woods with Seventh Generation.

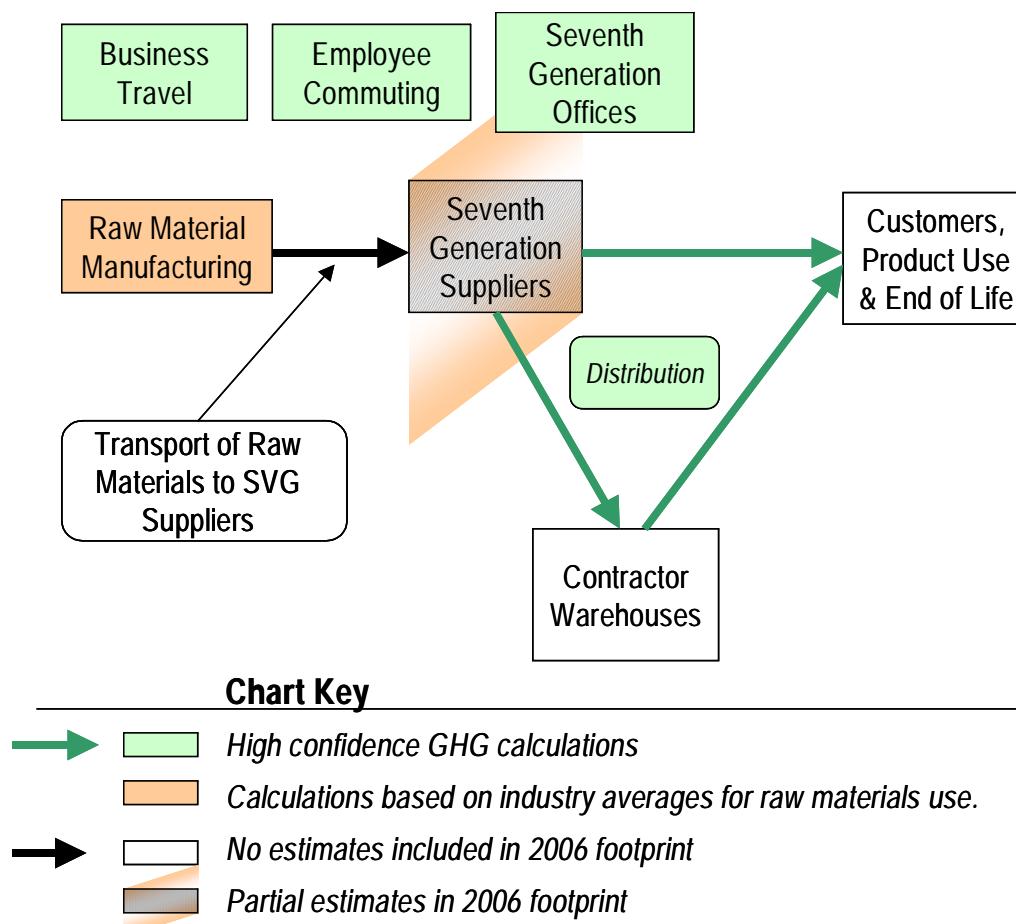
Dayna Baumeister & Janine Benyus



Energy Use and Greenhouse Gases

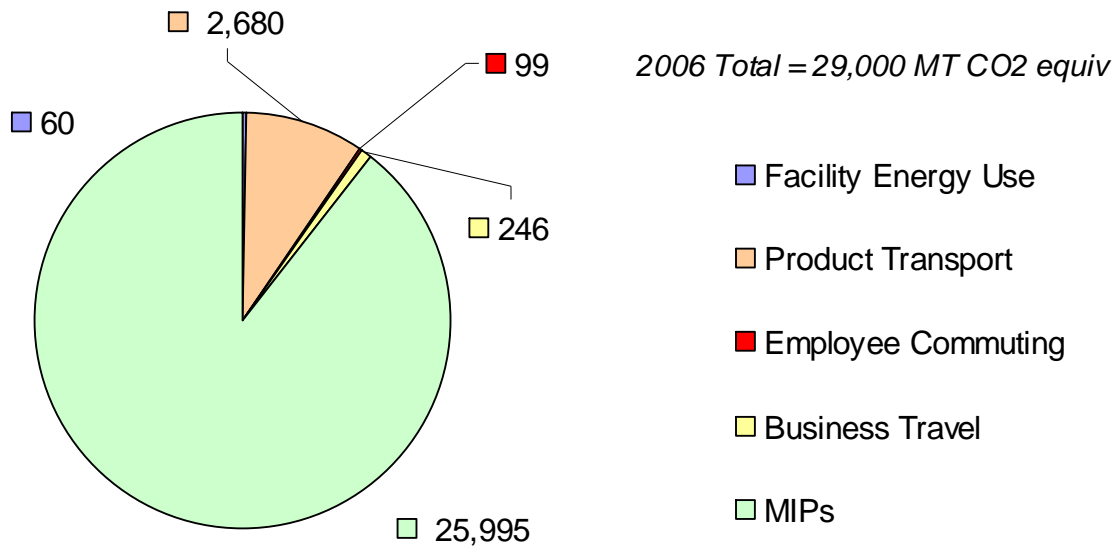
Each year our company strengthens its commitment to halting the climate crisis. In 2006, we collaborated with Greenpeace on Change It!, a week long environmental advocacy training for 100 students with a special focus on climate protection. Last year also marked the first time we prepared a detailed carbon footprint for our company.

Figure X: Boundaries for 2006 Carbon Footprint Calculations



Our carbon footprint for calendar year 2006 totaled 29 K metric tons of carbon dioxide equivalent (CO₂ equiv.). This footprint calculation includes our offices in Burlington, VT, business travel, employee commuting and the distribution of our products. We used the internationally accepted greenhouse gas protocol developed by the World Resources Institute and World Business Council on Sustainable development. We also developed greenhouse gas estimates for the 21,840 metric tons of materials used to make our products. For these calculations, we used CO₂ emission averages per kilogram of material used that were drawn from industry sources and published reports. We found that processing the materials, ingredients and packaging comprised roughly 90% of our cradle to gate carbon footprint.

2006 Cradle-to-Gate Carbon Footprint

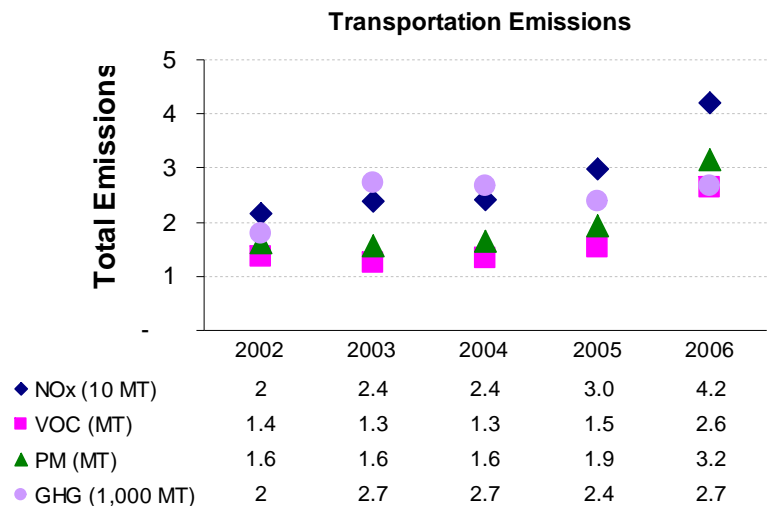


Product Transportation

Product transportation comprises the second largest category of greenhouse gas emissions, trailing the emissions associated with processing materials, ingredients and packaging to make our products. We ship our products primarily via truck and rail, from our contract manufacturer's factories to our distribution centers and from these distribution centers to our customers, or from factories directly to our customers. We also transport a limited number of items by ship. Each of these modes of transportation has varying degrees of environmental impacts: maritime vessels are cleanest per ton shipped, followed by trains then trucks. [EN34]

Since 2004, we've made several important changes to reduce transportation costs and environmental impacts. First, we increased the number of shipments we made from our supplier factories directly to our customers. These direct shipments bypass our warehouses and eliminate a link in our shipping chain. Second, we increased our use of rail transportation. Lastly, we moved our warehouses to new locations to reduce travel distances and time. We did not calculate the complete environmental savings for these distribution changes, but we know they're significant.

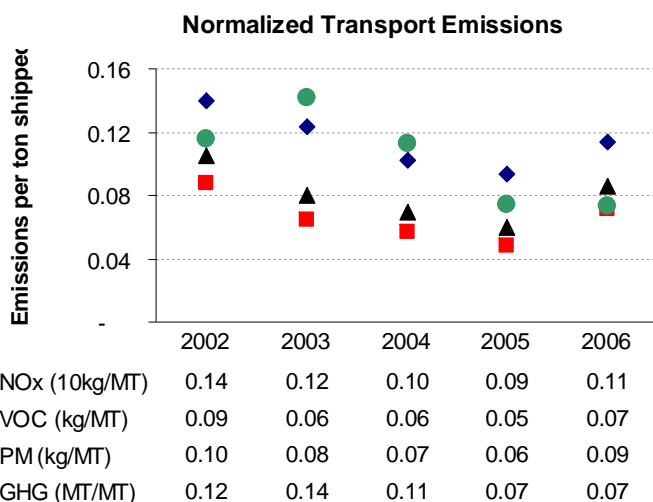
As the Transportation Emissions chart shows, our emissions of nitrous oxides (NO_x), volatile organic compounds (VOCs), particulate mater (PM), and greenhouse gases (GHG) were relatively stable from 2003 through 2005 despite a 142% growth in sales. The transportation changes outlined above – direct shipments, use of rail transportation, and new warehouse



locations – were responsible for mitigating emission increases. In 2006 however, our emissions of all four pollutants increased as sales volume rose and the total weight of product shipped increased by 36% compared with 2005.

When we look at our transportation emissions on a pound for pound basis (e.g., the pounds of each pollutant released per each pound of product shipped), we find that our 2006 emissions averages increased for three pollutants (NOx, VOCs, and PM) and our greenhouse gases remained unchanged.

While our normalized transportation emissions had been dropping steadily over the past three years (2003 – 2005), we did not implement any significant transportation changes in 2006 to prolong this trend. And as sales continue growing, we will need to find new transportation efficiencies and/or increase the use of renewable fuels to reduce this part of our carbon footprint.

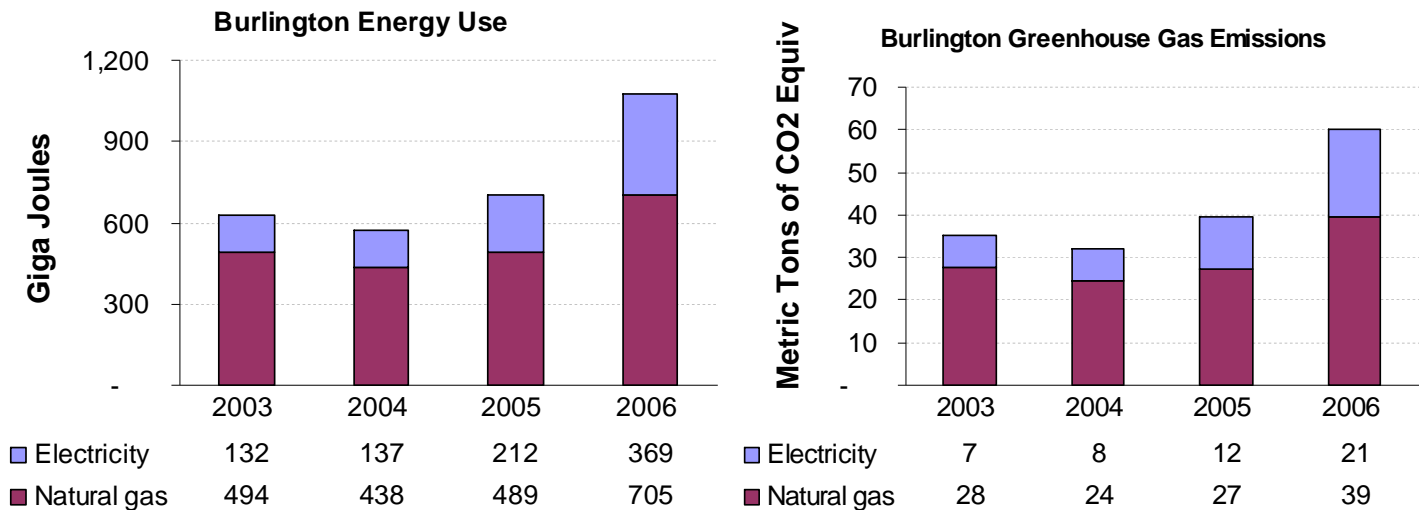


Since 2002, normalized transportation greenhouse gas emissions per ton of product ship have dropped 50%

Emissions from Our Burlington Offices

Our office greenhouse gas emissions took an upward turn last year as well. This was expected given that we increased staffing levels by roughly 25% and moved into a much larger office that increased our square footage by 12,000 feet. The good news is that we built our new offices with energy conservation in mind and are in the process of obtaining LEED Gold certification. Still, we were surprised to find that our building energy greenhouse gas emissions increased 53% from 39 metric tons to 60 metric tons. This increase in greenhouse gas emissions tracks directly with increases in natural gas to heat our offices and electricity from Burlington Electric for lighting [GRI EN3, GRI EN4]. Specifically, our electricity usage increased 73% from 2005 and our natural gas use increased 44% over the same time period.

Figure X: Burlington Office Energy Use and Greenhouse Gas Emissions



In 2008, we are again expanding our office space and an audit of our energy usage will be conducted as a first step in taking our company to the next level of conservation strategy and emissions reduction. We did not offset our 2005 carbon emissions nor will we offset our 2006 emissions. Instead, we have chosen to invest the funds we would have spent on such offsets on the development of a more accurate accounting of our supply chain emissions and on initiatives that will simply reduce and one day eliminate our office and supply carbon footprints so that few if any offsets are required in the future. Rather than simply compensate for the atmospheric carbon we create, we believe it is better to devote our resources to eliminating our greenhouse gas emissions outright. In our view, this approach will ultimately result in a far more impactful and permanent level of sustainability for our company's operations.

Our office greenhouse gas emissions increased by 53% from 2005 to 2006, much greater than our 25% increase in full time employees.

Looking Ahead

As we develop a more complete picture of our carbon footprint, we are setting ourselves new baselines against which we will track further progress. We are on track in meeting the goals set for 2007 (below) and are in the process of setting goals and designing strategies for 2008:

- 2007
 - Develop employee awareness and personal household CO₂ reduction programs. 20/20 by 2010.
 - Work with employees to calculate their personal household carbon footprints. Set incentives so that employees design reduction strategies into their lives.
 - Work with our manufacturing partners to calculate their carbon footprints.
 - Refine footprint estimates for our materials, ingredients and packaging.
 - Establish reduction goals for the various parts of our value chain.
 - Increased recycled content in our packaging.
 - Institute CO₂ reduction measures for our Burlington offices.
 - Work with employees to take our household CO₂ reduction program into the community at large.
- 2008
 - Work with our Tier 1 manufacturing partners to set footprint reduction goals.
 - Make changes to our products' materials, ingredients and packaging to reduce their carbon footprint.
 - Engaging SVG's warehouses to reduce their carbon footprint.
 - Reduce travel by introducing more video/web conferencing
 - Develop a carbon footprint for paper products.

Our Workplace

In February 2006, we moved into our new 20,000 square foot office building on Lake Street in downtown Burlington. Situating our office in the city allows us to walk to everything or take mass transit. It also cuts way down on the driving our employees have to do by allowing many of them to work where they also live.

Our new office was constructed using local wood from sustainably managed forests (as certified by the Forest Stewardship Council) and various recycled materials in its insulation, walls, and workstations. Our 2005 Corporate Responsibility Report contains details on the environmental aspects of our facility and its design.

Day-to-day operations at our company are led by a seven-person Executive Committee comprised of the President, the Executive Vice President of Operations, the Chief Financial Officer, the Senior Vice President of Sales, the Chief Marketing Officer, Vice President of IT and the Vice President of Organizational Development. This team manages the development and execution of strategic plans and budgets, as well as our key annual operating priorities and goals. This team meets semi-monthly for one day to review major operating decisions.

Our employee-led Green Team and Work/Life Balance teams continued their work in 2006. The Green Community Team (GCT) organized SVG as a sponsor of Vermont's Green-up Day. The GCT also donated money to support the purchase of fresh produce by the Food Shelf. The Work/life balance team's proposal for a Dependent Care match was accepted in 2006 for January 1, 2007 implementation. There weren't any other major changes to benefits in 2006.

We made significant advancements in our organizational development and capability-building through our continued work with Carol Sanford, our systems thinking "guru." This process is helping employees sharpen their skill sets in order to keep pace with new job demands and changes in the company landscape, and develop their personal potential as well as that of the company as a whole. Our efforts are a natural extension of the process we've gone through to define our company essence and direction. The following story provides insight into that experience and illuminates the profound changes that keep altering our view of our mission in the world and change the ways we intend to meet the ambitious goals we've set for ourselves.

2006 Stories

Carol Sanford: Reflections

Seventh Generation has committed itself to a capability building process to develop consciousness for all its employees and board members knowing this is a significant overarching challenge and core to its work. In fact, Seventh Generation and its employees believe that this is core to its mission since we, as a nation and world, cannot reconcile the highest restraints to planetary and social health without consciousness as citizens, consumers, and contributors. We will continue to report on our progress in this regard.

All of these challenges are problems of consciousness; meaning "being able to hold enough of a whole in mind when we work and make decisions to see the impact of our way of working on all the

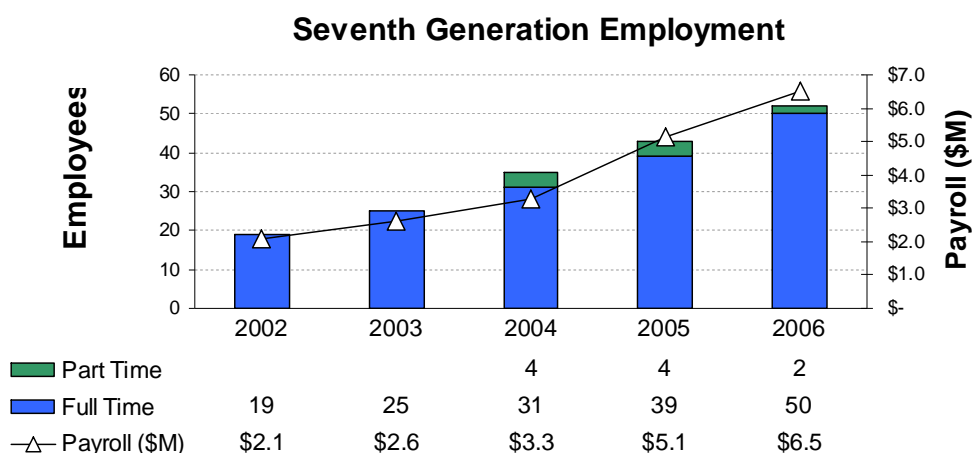
entities it touches and draws on". The power to reflect in such a systemic way is core to becoming a socially responsible and ethical company.

The progress in the work at Seventh Generation on consciousness is mixed and erratic as one would expect. We have strong moments of seeing things in a way we have not seen them before and in those moments we find ideas and approaches that are not only financially advantageous to the company but simultaneously meet the needs of our buyers in ways that exceed their (the buyers) own aspirations while being consistent with who we are and what we value at their highest level. Then, we become very engaged in day to day, not taking the time to create the field necessary to do such work with consciousness and find ourselves overwhelmed and with lesser ideas and ways of working. We collapse back into using ideas, concepts and ways of thinking that do not evoke consciousness. We often lose spirit on these occasions, leading others in a less than developmental way. This happens far more often than we would like.

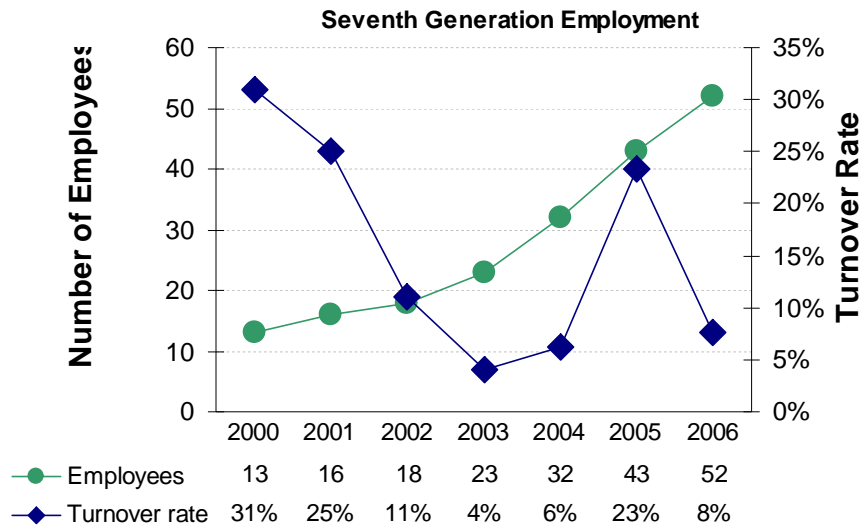
Our most important downfall is not sticking with our work on personal development, without which we cannot build the capacity to manage our own consciousness. It evaporates in our experience. If we did not remain tenacious in having a recharged experience regularly from experienced resources, it would surely fall by the way side and we would be ordinary people and an ordinary company without living out our extraordinary corporate direction or setting the standard for business worldwide that we so aspire to provide.

Employment, Wages & Benefits

Last year we added thirteen people to our community, an extraordinary increase of 32%. This brings our total staff to 52. In addition to our 50 full time and 2 part time staff, we employed eight interns [LA1]. Nearly all (50) of our employees are full time. Forty employees are on salary and 12 work on an hourly basis. Total payroll increased over the past year from \$5.1M to \$6.5M.

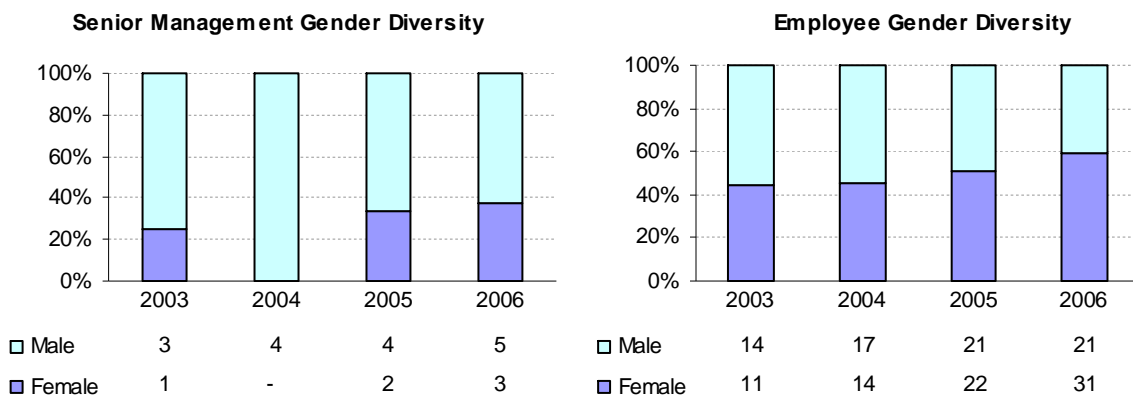


We reduced our turnover rate from 2005 by two thirds; with only four employees leaving the company this year. [LA2]. This turn of events reflects the continuing alignment between our new strategic direction and the skills and interests of our staff. It also reflects improved hiring practices in which the people we hire both fit into our culture well and have the skills and experience to do their work. Lastly, our work with Carol Sanford contributed to our lower turnover numbers. Several employees who didn't fit into the way we were evolving parted ways. But many more employees were energized by the increased focus on supporting company values, connecting individual passions to company goals; and deepening our relationship with our customers and consumers.



Diversity

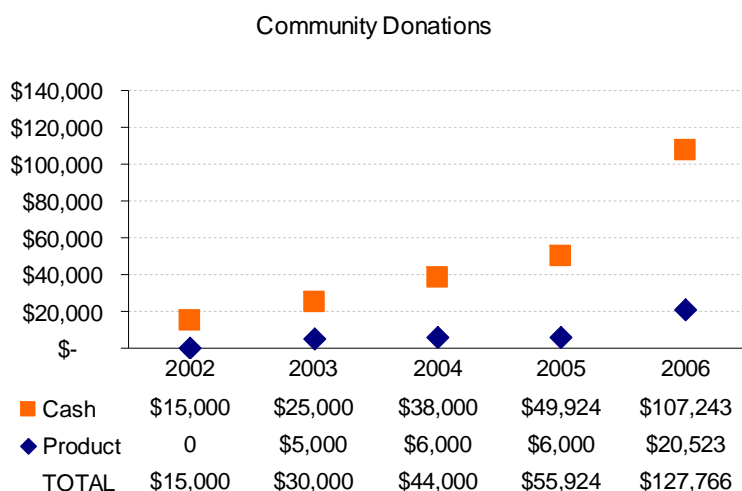
Gender is the only indicator of diversity that our human resources department formally tracks. We made progress in improving the representation of women in decision making in 2006, both at the executive and the management level. Three out of eight senior managers are female (no senior managers were female in 2004). Nine of 21 company managers (43%) are female. The composition of our community is approximately 40% male and 60% female.



One of our 52 employees identifies themselves as a person of color. We've identified the lack of cultural and racial diversity as an issue in previously corporate responsibility reports. Last year, we hired almost exclusively from the local Vermont talent pool. As a result, our new hires tend to reflect our state's demographic, which is 97% Caucasian, and that demographic, in turn, is reflected in our current workforce. Our human resources department has recognized the need to reach out beyond these known networks, but we have not made real progress. While our gender diversity is improving, our racial diversity is still an issue we need to address.

Community Donations

We seek to be a force for good in our community[EC10]. We accomplish this goal by engaging in volunteer efforts, making product and monetary donations, and providing leadership to local organizations. We make these contributions as a company, and we support similar contributions made by our employees. In 2006, we made \$20,523 in product donations and \$107,243 in cash donations to local, regional, and national organizations that support social, health, and environmental causes.



We have a policy of making donations to a limited number of Political Action Committees like Emily's List and Americans Coming Together. To date, the company has engaged in no political lobbying although our product chemist has testified in favor of state legislation that would restrict the use of phosphates in automatic dishwashing detergents. In general, we will not hesitate to lobby for legislation that is consistent with our Values and Mission and will disclose all such lobbying efforts and the amount of funds we expend on them [SO3].

In addition to cash and product donations, we are committed to getting our product out to those in the non-profit community as inexpensively as possible. For over a decade, Seventh Generation has offered its products at a discounted rate to over 50 organizations including Greenpeace, Chesapeake Bay Foundation, Sisters of St. Joseph, and the Wolf Hollow Wildlife Rehabilitation Center. In 2006, these sales totaled more than \$15,000.

We also donate office space in our Burlington facility for Vermont Business for Social Responsibility (<http://vbsr.org/>).

Section on Sponsorship still missing.....

Helping Five for the Next Generation

Putting our vision, mission, and principles to work means keeping our eyes open for opportunities that allow us to bring these crucial parts of our business to proactive life and serve our many communities in meaningful ways.

For us, that work starts with helping others create healthy homes for their families. That task is challenging enough, but it reaches a whole new level when the home in question is the place where quintuplet toddlers are growing up.

In 2005, Jennel Jenkins, an office staffer at the University of Maryland Medical Center in Baltimore, gave birth prematurely to five infants, two of whom spent the first months of their new lives in intensive care. No one can adequately prepare for the tremendous shift that such a momentous event brings to life, but Jennel quietly embraced the challenge with little publicity. Hers was indeed a remarkable burden, one that not only involved caring for five extraordinarily vulnerable infants, but also finding suitable housing for her children all while deflecting criticism from people who felt that having quintuplets had been purposeful and was "irresponsible."

A Seventh Generation customer and subscriber to our monthly newsletter, the Non-Toxic Times, read about Jennel's predicament in a local newspaper and sent Consumer Relations an e-mail about the story. That e-mail led to a conversation with Gregor Barnum, our Director of Corporate Consciousness, which in turn led to a phone call from Gregor to Jennel to see how we could help. Within days, our Consumer Relations team had calculated the amount of diapers, baby wipes, and laundry detergent that would sustain Jennel's family for a year and set up a shipment schedule that took into consideration Jennel's limited storage space.

Fulfilling our corporate mission in ways like this illuminates a fundamental truth about corporate responsibility: Doing something to make a single human being's life a little better is where the adventure starts. And indeed there is as much meaning to be found in the journey toward such acts as there is in the acts themselves.

Jennel Jenkins is not extraordinary because of her five children, but because of something bigger. She impressed Gregor with her quiet embrace of that which had been handed to her, and in her grace she taught us all a little more about gratitude, humility, and living in joy.

Gratitude, humility, joy. Through experiences like those we shared with Jennel, the true meanings of these words are revealed. And through this revelation we come to understand that the ideas they represent are the greatest forces for responsible decision-making that exist. They are truly words to live by, for Jennel and for all of us at Seventh Generation, words that show us that "corporate responsibility" is not just about doing right but about giving something back to this generation and to the next seven as well.



CR REPORT GLOSSARY

Word or Acronym	Definition
Biological Oxygen Demand	A measure of the amount of organic contamination (see Organic) in water based on how much oxygen bacteria consume as they degrade the contamination.
BOD	See Biological Oxygen Demand
carbon dioxide	The major gas produced when organic materials, such as fossil fuels (see Organic) are burned. Carbon dioxide is the most significant greenhouse gas (see Greenhouse Gases)
CERES	Coalition for Environmentally Responsible Economies
Channels (Grocery/Natural)	Channels are the markets we sell product to. For example, "Grocery channel" means Grocery stores and "Natural Channel" represents Natural Food stores.
Chemical Oxygen Demand	A measure of the amount of organic contamination (see Organic) in water based on how much oxygen is consumed when the contaminants are oxidized to carbon dioxide.
chlorine	A highly reactive chemical element. Chlorine is an effective disinfectant but reacts with organic materials (see Organic) to form persistent, substances that pollute the environment and concentrate in animal and human tissue (see Organohalides).
CO2	See Carbon dioxide
COD	See Chemical Oxygen Demand
CR	Corporate Responsibility
CRO	Corporate Responsibility Officer
CSR	Corporate Social Responsibility (largely replaced by CR)
FFCS	Finnish Forestry Certification Standard
Fossil Fuel Energy	The energy released when a fossil fuel, such as oil, coal, gasoline, or natural gas, is burned.
GHG	Greenhouse Gas. See Greenhouse gases
GMO	Genetically Modified Organism. A plant, bacterium, or other living organism that has had its (DNA) altered using a technique called 'gene splicing'.
Greenhouse gases	A gas that is transparent to sunlight, but traps heat in the earth's atmosphere in the same way glass traps heat in a greenhouse.
HDPE	High Density Polyethylene, a common plastic used for milk, cleaner, and cosmetic containers. . Plastic recycling symbol "2".
hypoallergenic	Being unlikely to cause an allergic reaction or irritation
LCI	Life Cycle Inventory. An evaluation of the environmental burdens associated with each stage of a product's life from creation and transportation to use and disposal.

Natural	Derived directly from nature. Seventh Generation uses this term to mean plant-derived substances, including those that have been modified in a way that is not found in nature.
NGO	Non-governmental organization
Nitrous oxides	Substances containing nitrogen and oxygen that are formed when fossil fuels are burned. Nitrogen oxides contribute to smog and acid rain, and are harmful to human health.
NOx	See Nitrous oxides
organic	Chemicals based on the element carbon. Organic chemicals may be natural or synthetic (derived from petroleum). Not to be confused with organic agriculture.
organohalides	Substances formed by the reaction of chlorine (see Chlorine) with organic materials (see Organic). Organohalides include the pesticide DDT and the pollutant dioxin. Organohalides are persistent toxic substances that pollute the environment and concentrate in animal and human tissue.
PCR	Post-consumer recycled
PEFC	Pan European Forest Certification
PET	Polyethylene terephthalate, a common plastic used for beverage containers, fibers, and other applications. Plastic recycling symbol "1".
phosphates	Phosphates are a nutrient (i.e. a material required by living things to grow) used in detergents to counter the effects of minerals in water (especially hard water). When phosphate-contaminated wastewater is discharged into lakes and streams, rapid algae growth occurs, turning the water green, depriving fish of oxygen, and diminishing the utility and recreational value of the lake.
PM	Particulate matter. A type of pollution consisting of microscopically tiny particles of solid matter that are associated with the burning of fossil fuels, especially diesel.
Precautionary Principle	An approach to risk management of chemicals that presumes a chemical, material, or process may cause harm until and unless it is tested and shown to be otherwise.
SOx	See Sulfur oxides
Sulfur oxides	Substances containing sulfur and oxygen that are formed when fossil fuels are burned. Sulfur oxides contribute to acid rain and are harmful to human health.
surfactant	A substance that alters the surface properties of water so the water can combine with grease and oil. Surfactants are the key ingredient in most cleaning products.
Total Suspended Solids	A measure of particulate matter contaminating water and wastewater.
VOC	See Volatile organic compounds
Volatile organic compounds	Compounds of carbon (see Organic) that readily evaporate, and therefore can pollute the atmosphere. Alcohol is an example of a volatile organic compound.

