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CEO Letter

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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, and other retail stores, we're the leading authority on consumer products that protect public health and the environment. Ours is a small but rapidly growing private company with 2005 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 2005 we employed 50 team members. 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. In the last year, we introduced our own line of feminine care products (tampons and pads) and added 18 members to our growing staff. [GRI 2.4, GRI 2.5, GRI 2.8, GRI 2.14]

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

- Non-chlorine bleached, 100% recycled paper towels, bathroom and facial tissues, napkins and paper plates (10% to 80% post consumer);
- Non-toxic, phosphate free, biodegradable cleaning, dishwashing, and laundry products;
- Plastic trash bags made from 65% to 100% recycled plastic (10% to 30% post-consumer);
- Chlorine-free diapers and baby wipes made from a non-chlorine bleached substrate; and
- 100% organic, cotton tampons and non-chlorine bleached pads.

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. We also support the Precautionary Principle and use its basic tenets in the evaluation of all materials and processes used to make our products. [GRI 3.14]



Ceres

Governance & Compensation

Our five-person Board of Directors has traditional responsibilities. It 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, 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].

Board Profile

Board Directors	Independent Directors	Women & Minorities
5	3	1

About this Web Update:

This report covers the calendar year 2005 and includes data from earlier years where available [GRI 2.11]. Our 2004 report was based on the GRI reporting guidelines [GRI 2.12]. This web update, which serves as our 2005 Corporate Consciousness Report, is based on the GRI standard as well. This year however we've chosen to prepare what we call a "GRI-lite" report.

The idea for our GRI-lite report grew out of our CERES Award-winning 2004 report. We invested significant funds in and devoted appreciable staff time to writing and printing the 2004 Report but received virtually no feedback, press coverage or even comments from our peers in the corporate responsibility movement. Disappointed by this conspicuous silence, we developed a report format that would require fewer resources yet still provide an accurate reflection of our efforts. And while the resulting document is smaller than last year's report, it still employs many of the GRI principles - transparency, inclusiveness, relevance, accuracy, neutrality, and comparability [GRI 2.17].

Though we have no intention of cutting our future commitment to corporate transparency, we believe that corporate responsibility reporting needs to evolve. 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 while avoiding the excessive costs often associated with such an endeavor. To advance this goal, we have initiated a discussion with CERES and a group of other companies on how to approach corporate responsibility from a "systems" perspective. We are planning a two-day retreat early in 2007 with all parties to explore a collaboration that would evolve the present state of CR.

Report Assurance: Many of our environmental indicator performance metrics take advantage of our new MIPs database, which provides us with the most accurate information on the materials used in our products. As a small company, we chose not to independently assure our report, relying on our corporate consciousness team to review and substantiate the reports accuracy and authenticity. [GRI 2.20 & GRI 2.21]

Stakeholder Consultation

Our corporate consciousness team 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]. Our current effort did not involve the same in-depth consultations with the panel of corporate responsibility experts organized by Ceres. [GRI 3.10] Instead, our discussions with these Ceres stakeholders was focused on the bigger picture of CR and future reporting formats. [GRI 3.11]. The stakeholders organized by Ceres did, however, give input into the material issues we should be focusing on during the development of this report as they provided comments on a report outline.

Overview of 2005 Corporate Consciousness Efforts

In producing our 2005 update, we want to highlight our 2005 accomplishments and review the progress we've achieved toward the goals we set in our 2004 report.

The table below summarizes our corporate responsibility performance in 2005. It was a good year for us in many categories. From a financial standpoint, we grew significantly, increasing revenues by 38%. Environmentally, we met many of our objectives for improving our products and reducing our transportation impacts. 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.

2005 Performance Highlights

Impact Area	Aspect	2005 Performance Highlights	Trend
Environment	Transportation	Reduced pollution impacts per ton of product shipped by 40% over the past year.	↑
	Natural Ingredients	Replaced petrochemical based surfactants and fragrances with vegetable ones in several products.	↑
	Environmental Savings	By purchasing our products instead of traditional brands, our customers are making a difference by using renewable and recycled resources, reducing CO2 emissions, saving water and keeping toxic chemicals out of their homes & the environment.	↗
Supply Chain	CR Engagement	Developed and field tested our new Manufacturer Partner Annual Report that includes 14 corporate consciousness areas.	↗
	Toxics	Ensured our paper suppliers were not purchasing chemicals from mercury-emitting plants.	↗
Social	Diversity and Inclusion	Increased female representation in management and senior management levels. Our workforce is less ethnically and racially diverse than the surrounding community.	→
	Open Communication	Conducted training on improving open communication	↑
	Employees	Added 18 new positions and initiated new Change Leadership Team	↑
Economic	Sales	Grew by 38% in 2005	↑
	Margin	Margins increased 9% over the last 5 years.	↑
	Systems	Implemented new financial management planning and reporting systems.	↑
	Market Share	For the one-year period ending December 2005, our sales represented 45% of the total natural foods cleaning, paper, and personal care categories combined.	↑

While our achievements were significant, we did not accomplish everything we had hoped to do. While 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 for these ingredients is an extremely difficult process, but it remains one that we'll continue to pursue.

Much of our 2005 corporate consciousness efforts focused on our new Lake Street green building. We worked with our entire staff, local architects and builders to design a new office space that we believe will receive the LEED Gold rating. We initiated or completed most of our other corporate consciousness objectives in 2005, including extending our mercury restriction to our paper suppliers and providing open communication training for all employees (see table below). We still have work to do on our three to five year corporate consciousness planning process, but this effort has been rolled into our product and packaging redesign efforts. Though we did not do formal CR training for our Board, we did add quarterly CR reports to every Board meeting.

In 2006, we'll be furthering our supply chain and product development efforts. The staff we've hired over the past year will be instrumental in this process. We will also continue to clarify our corporate mission and social and ecological imperatives. A management level process is underway to create a systems approach to achieving our deeper aspirations as a company. This work includes developing a culture here at Seventh Generation that will help our employees and our stakeholders achieve these goals [GRI 3.19]. This process will be revealed in depth in our 2006 CR report.