



2006 Stewardship Report

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 - ii. Community-Based Grants and National Partnerships
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CONSERVATION

REI's support of conservation is deep and long term. Efforts began formally in the early 1970s with the founding of a community service project program and annual giving program. Both efforts began humbly our first giving budget was about \$12,000 and the first service project took a school bus full of REI members and employees to the Olympic Peninsula in Washington state for a trail project. As the co-op has grown, so too have the impacts of our work.

Supporting conservation takes many forms, including:

- Actively **celebrating and promoting volunteerism** in support of hands-on work to enhance recreational opportunities
- **Advocating** for critical conservation issues
- **Cultivating the next generation** of community stewards and outdoor advocates

In 2006 REI pursued two special programs that deepened our commitment to stewardship. We created a special [\\$1 million parks grant](#) program to help enhance local recreation opportunities in 100 REI communities, and we put service in action by addressing the devastation faced at [Mount Rainier National Park](#) by winter flooding by leveraging the co-op's financial, staff and member resources



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CONSERVATION ENGAGING YOUTH

In disturbing numbers, today's youth are not regularly active in outdoor recreation activities at the levels of more mature generations. At REI, we view the biggest contributor to this lack of rewarding outdoor experiences among children to be time competition from technology such as television, the Internet and video games, and the lack of available time by families.

Supporting our aspiration to introduce more young people to the enjoyment of outdoor experiences, we have programs in place that encourage youth to lead active and healthy lives. Two examples are [REI's Kids Passport to Adventures](#), family-friendly hikes recommended by our knowledgeable staff across the country, and our [Gear Banks](#) that provide complimentary equipment to youth to facilitate positive outdoor adventures.

Today's young people are also tomorrow's leaders. We strongly believe their participation is needed to help to protect and preserve shared natural spaces for the enjoyment of future generations. Through our partnership with Leave No Trace, the [Promoting Environmental Awareness in Kids \(PEAK\)](#) program educates children about environmental ethics. Taught by REI employees, Leave No Trace staff and others, the interactive program teaches Leave No Trace principles through a series of games, activities and lessons designed for different age groups.

We also support organizations that offer conservation and education programs for youth. Our 2006 grants program supported many organizations such as -

- Orange County Outdoor Science Foundation (Costa Mesa, Calif.)—The Foundation was able to establish a pilot program called Connecting Families to Nature through REI's support. The program serves more than 250 children and their families in interactive events scheduled around environmental events such as Earth Day. Several REI's employees in California also volunteer for this nonprofit organization.
- Friends of Warner Parks (Nashville, Tenn.)—Financial and gear grants were provided by REI in support of its People Exploring Nature (PEN) program. PEN provides inner-city boys and girls ages 8-11 with outdoor experiences including overnight camping trips. Additionally, its Teen Outdoor Recreation Adventure provides youth ages 12-18 life skills and access to activities that promote environmental stewardship such as service learning projects.
- Winter Wildlands Alliance (Boise, Idaho)—REI's grant supported the Alliance's SnowSchool, a program that provides an educational experience to 4th-6th grade children via snow shoe outings. The program also teaches youth about alpine ecosystems and instills a sense of responsible stewardship for wild places.



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GIVING COMPREHENSIVE APPROACH

We believe our giving approach differentiates REI and is unique to the world of corporate philanthropy. Not only do our employees identify locally relevant nonprofit partners for grants, but they also donate their expertise and passion to help organizations and individuals learn, grow and experience the outdoors.

In 2006 REI's involvement and positive impact in our local communities reached new heights. To complement our \$3 million grants effort, REI employees enthusiastically coordinated service projects or recruited volunteers to work with our nonprofit partners. The results were impressive.

- More than 400 employee-nominated nonprofits received REI grants
- 169,015 volunteers donated 900,767 hours of service
- Care for 4,395 miles of trails and 1,275 acres of land

To complement REI's spirit of giving, REI's employees also demonstrate their leadership by participating in our annual [charitable action campaign](#).

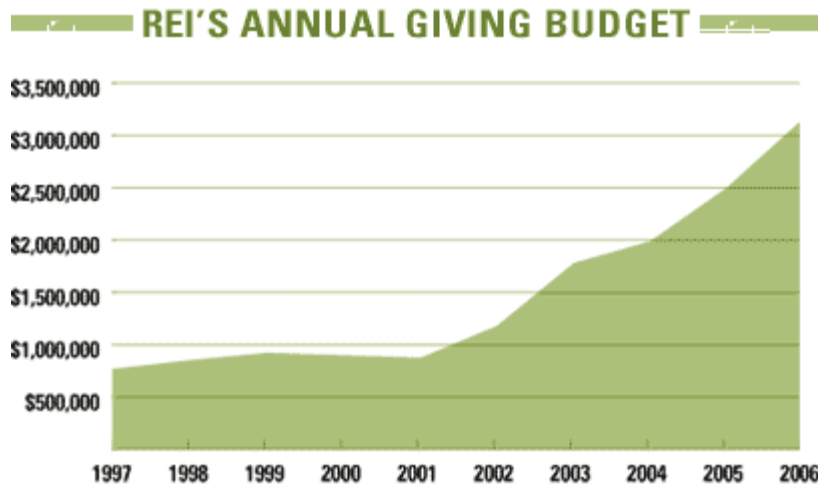


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2006 REI STEWARDSHIP REPORT

When Lloyd and Mary Anderson formed an outdoor recreation cooperative in 1938 with a group of 21 climbing friends, they built a business with a commitment to high quality gear and promise to share profits with members. Today, as a successful multi-channel retailer with over 3 million active members, our cooperative structure continues to guide our business. Throughout our history, we have also worked to conserve nature, inspire responsible use of the outdoors and enhance the natural world for the enjoyment of future generations.

We are proud to release our first annual stewardship report and invite you to read about our actions. This report is our first effort to measure and report publicly on the most significant social and environmental impacts from our business operations and in the communities where we do business. We also challenge ourselves to ambitious goals and commit to regularly reporting progress toward their achievement.

REI's stewardship report contains the following sections:

"About this Report" — The process we followed to develop our report, REI's values and general cooperative information.

"Active Stewardship" — Our efforts to encourage active hands-on conservation efforts and growing participation in responsible outdoor recreation, with a particular focus on engaging youth.

"Sustaining the Natural World" — Business operations and product innovation that focus on reducing our impact on the environment. We address energy use, green building, paper use, waste reduction, and sustainable products.

"People" — A look at why REI is a special and rewarding place to work, and how the cooperative implements socially responsible factory compliance around the world, wherever REI brand products are created.

We welcome your thoughts about our progress and invite you to send us your comments to stewardship@rei.com.

Sally Jewell
REI President and CEO



Our NEW
EcoSensitive Products!

About this Report



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CONSERVATION

STEWARDSHIP—CELEBRATING & PROMOTING VOLUNTEERISM

At REI, active stewardship means getting one's hands dirty. For our store and employee-supported service projects efforts, we work with local nonprofit organizations and land managers, and invite our members and customers to join us in support of our local communities and the outdoors. In 2006 REI recruited nearly 24,000 volunteers in environmental stewardship projects—a 65 percent increase over the previous year. These volunteers contributed 90,274 hours of sweat equity to public lands, parks, trails and waterways.

We also use our giving dollars to extend the reach of REI's service efforts nationally. We achieve this through specific [local on-the-ground stewardship](#) efforts and [national stewardship partnerships](#). Both local and nation programs include close ties with REI retail stores and employees in our communities. And we [promote stewardship](#) by making it easier to connect with volunteer organizations, and recognizing and rewarding inspirational steward leaders from across the country.



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CONSERVATION

COMMUNITY-BASED GRANTS & NATIONAL PARTNERSHIPS

Examples of local REI on-the-ground stewardship grants in 2006 include:

- Appalachian Trail Conservancy (Harpers Ferry, W. Va.) - Through financial and gear grants, this nonprofit helps keep 2,175 miles of footpath cleared of invasive vegetation and caring for 265 shelters from Massachusetts to Florida. REI's support assisted in outreach efforts to recruit new volunteers on college campuses.
- Pittsburgh Parks Conservancy (Pittsburgh, Pa.) - The Conservancy's Urban EcoSteward program educates and enlists volunteers to maintain sections of urban park land by removing invasive species, planting native flora, stabilizing soil erosion and cleaning litter. REI's grant funded outreach materials, plants and their volunteer program.

Nationally, REI partners with large and influential nonprofits that coordinate stewardship projects around national events such as American Hiking Society's National Trails Day, Adopt-a-Crag through the Access Fund, and National Public Lands Day.

An example of a nationally-funded partnership is REI's support of the International Mountain Bicycling Association (IMBA). REI has partnered with the association to promote volunteerism in the mountain biking community. Our funds support the development of co-branded print and online resources for use by IMBA's state-level affiliations. The long-term goal of the partnership is to record 5,000 volunteer days in 2007 and 10,000 volunteer days in the year 2010.



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CONSERVATION PROMOTING STEWARDSHIP

In late 2006 we added a new resource for our employees, members and customers to research and connect to opportunities within their communities.

Through our partner [VolunteerMatch](#), individuals can locate meaningful volunteer opportunities that meet their interest and available time. In the fourth quarter, VolunteerMatch logged 1,227 referrals to nonprofit organizations via the portal hosted on REI.com.

Stewards for the Environment

Every year through REI's Stewards for the Environment awards program, we select local community heroes who work tirelessly to inspire others to care for the environment and recreate outside. The awards also highlight how individuals contribute different skills and how their roles positively impact communities across the country.

Winners are selected based on the evaluation of the overall impact of their efforts, personal time investment, creative approach and success in engaging others.

Mirroring our employees' involvement in our market-based grants program, REI store teams select local nonprofit organizations to nominate extraordinary volunteers. To celebrate their achievements and honor their personal cause, REI proudly donates \$20,000 to each designated organization. Additionally, each individual receives a \$500 REI gift card. REI's 2006 Stewards for the Environment recipients were:

Nataka Crayton
Boston, Mass.
Urban Ecology Institute

Pete "Pickaxe" Fish
Pacific Crest Trail Association
Sacramento, Calif.

Allen de Hart
Friends of the Mountains-to-Sea Trail
Raleigh, N.C.

Dan Harrison
Michigan Mountain Biking Association
Troy, Mich.

Jan Prentice
Seattle Girl Scouts - Totem Council
Seattle, Wash.

Anna Ryan
Volunteers for Outdoor Arizona
Tempe, Ariz.

Fran Taylor
San Francisco Bicycle Coalition
San Francisco, Calif.

Bill Tregoning
Winter Wildlands Alliance
Boise, Idaho

For complete stories about our 2006 winners, [click here](#).



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CONSERVATION

\$1 MILLION PARKS GRANT

To mark the milestone of achieving \$1 billion in sales in 2005, we created a special \$1 million grants program to share our success with the communities that have supported the co-op's growth over the years. Throughout 2006 REI gave 100 grants of \$10,000 each to nonprofit organizations dedicated to the preservation and maintenance of local community parks. REI employees selected parks that were of special interest to customers and provided outdoor recreation opportunities. For a complete list of the parks and nonprofit partners across the country that received grants, [click here](#).

REI's employees contributed their time and recruited members and customers to improve these community parks. Results included:

- 12,651 volunteers gave 51,583 hours of service to protect 135 miles of trail and 110 acres of land.

In recognition of our community parks efforts, REI received the 2006 National Corporate Humanitarian Award from the National Recreation and Parks Association.



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CONSERVATION RESTORING MT. RAINIER NATIONAL PARK

In November 2006, incredible damage occurred at Mount Rainier National Park resulting from record-setting rainfall, overflowing rivers and mudslides from several winter storms. Damage to Mount Rainier National Park includes the devastation and closure of numerous campgrounds, and many of the park's most popular outdoor recreation areas, including sections of the Wonderland Trail. Estimates of the damage were at \$30 million and counting, according to Mount Rainier National Park officials.

As a first step to our response, we committed \$75,000 in support of the recovery and restoration effort. REI stores in Washington state distributed self-mailer remit envelopes as bag stuffers in customer shopping bags. The envelopes invited customers to make a financial donation to Washington's National Park Fund. To date, nearly \$31,000 has been donated by our generous members and customers.

In 2007, we will work with the [Washington Trails Association](#) to coordinate volunteer work parties with our employees, members and customers to help restore this national treasure.



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CONSERVATION ADVOCATING FOR THE OUTDOORS

REI has a long history of advocacy in support of the outdoors and outdoor recreation. This support has come in many forms, from direct involvement in public policy discussions, to funding issues important to recreation and conservation, to providing education and information in support of issues of importance to the outdoors.

Issues are selected based on their importance to the outdoor community and the outdoor experiences of REI members, on REI's ability to be influential in the desired outcome, and on the potential precedent that policy matters may have for the future of outdoor recreation and the conservation of recreational lands and waters.

For 2006 our public policy agenda pursued the following activities and efforts:

- National support and funding for public lands, and in particular, continued and adequate funding for the Land Water Conservation Fund, with an emphasis on the program's state-side funds.
- Continued protection of high-quality federal recreational lands as identified under the Roadless Rule implemented during the Clinton Administration.
- Active support of the Washington Wildlife and Recreation Coalition and its efforts to secure state funding for protection and enhancement of public lands, trails, habitat and farmlands in Washington state.
- Financial support and the endorsement of two state-level conservation ballot measures.

Click on the following links for additional information on REI's actions on [national](#) or [state-level](#) advocacy.



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CONSERVATION ADVOCATING FOR THE OUTDOORS—NATIONAL ADVOCACY

REI is a member of the Outdoor Industry Association (OIA) and an active participant in its government affairs efforts. In 2006 we focused our national efforts in collaboration with OIA on public land funding. The effort's emphasis was on the state-side portion of the Land Water Conservation Fund. The fund has a significant revenue source, but dollars must be appropriated each year and dollars for the LWCF have been diminishing over the past several years. State-side LWCF was selected as a target because the money is very important for close-to-home recreational opportunities. Additionally, the program has been in danger of being eliminated over the past couple of budget cycles.

REI's efforts included active lobbying on behalf of the program in Washington, D.C. during OIA's annual Capitol Summit. Other lobbying topics at the Summit included building support for revised National Parks (in collaboration with the National Parks Conservation Association) governing rules that prioritized conservation.

Results of both efforts were positive with the state-side LWCF continuing to be funded at \$30 million for 2007, and a September 2006 announcement that the Department of Interior would continue to manage the parks with conservation of their natural qualities as its top priority.

In addition to direct lobbying, REI was a major supporter, both financially and with staff expertise, in the development and publication of an industry study that illustrated the direct and extended economic impact of outdoor businesses. The research has been used in numerous ways to support the need for public policy and funding that supports conservation and active outdoor recreation. More information about the study can be found on the Outdoor Industry Association website, www.outdoorindustry.org.

In the spring of 2006 REI endorsed and participated in an announcement by the state of Washington that it was joining a lawsuit seeking to overturn the current administration's repeal of the Clinton Roadless Rule. REI had been a supporter of the original Roadless Rule. We commented in favor of the rule in the 1990s because of the protections it affords important recreational lands and habitat across the country. In September, a U.S. district judge acted on the suit and reinstated protections on these last undeveloped federal forest service lands that are important to active outdoor recreation.



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ADVOCATING FOR THE OUTDOORS—STATE-LEVEL ADVOCACY

REI is a significant supporter of the Washington Wildlife and Recreation Coalition, a nonpartisan coalition of business, conservation, community, farming and outdoor organizations working together in support of funding for the Washington Wildlife and Recreation Program (WWRP). The WWRP, which is funded from the state's capital budget, is a vital program for funding that supports parks, trails, shorelines, habitat and farmlands across the state. In 2006 the coalition worked on building support for \$100 million in program funding for the 2007/2008 biennium. In addition to being a financial supporter of the coalition, REI also holds a board seat with the organization.

REI supported two conservation and recreation ballot measures in 2006.

In Washington state, REI made a \$10,000 contribution and endorsed the "No on I-933" campaign. The initiative, had it passed, would have seriously undermined conservation protections in the state. The initiative was soundly defeated by a strong "No" campaign that enjoyed broad community support from regional companies, business leaders, conservation organizations and others.

REI also provided a \$5,000 contribution and endorsement to Measure 26-80 in Portland, which funded a well-planned and significant expansion and enhancement of parks' opportunities in the city. The measure also passed with strong public support.



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CONSERVATION

INSPIRING ACTIVE & RESPONSIBLE RECREATION—REI OUTDOOR SCHOOL

Through REI's year-round Outdoor School we hope to educate and inspire others for a lifetime of outdoor adventure. The program educates our members and customers interested in learning a new activity or improving existing skills. Currently offered in 23 REI stores in the San Francisco Bay-area, Sacramento, Boston, Philadelphia and Washington DC-area, we will expand the day-long program in the coming year to additional cities.

REI Outdoor School classes and outings vary from store to store, and include activities such as hiking, backpacking, road cycling, mountain biking, kayaking, outdoor photography, camp cooking, map and compass navigation, GPS navigation and rock climbing. Family-friendly, pet-friendly and women's-specific offerings are also available.

REI members enjoy a discount on the costs associated with participating in Outdoor School classes or outings.

In 2006, 4,651 individuals participated in REI Outdoor School activities. For more information on REI Outdoor School offerings, visit rei.com/outdoorschool.



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CONSERVATION

REI KIDS PASSPORT TO ADVENTURE

Today's youth are spending less time outdoors than any previous generation, according to a Nature Conservancy-funded study. Our competition for getting youth outdoors is technology such as TV, Internet, home movies and video games.

Launched nationally in 2006 REI Kids Passport to Adventure program encourages kids and their parents to enjoy the great outdoors, including those who might not have considered hiking as a family activity.

In 2006, more than 10,000 children and adults picked up REI's Kids Passport to Adventure trail hiking journals at their local REI store. The complimentary journals included descriptions of family-friendly hikes recommended by local REI employees, driving directions and customized hiking tips.

Approximately 10 percent of the hikers who picked up packets returned to REI with completed journals, field notes, photos and drawings. Children who logged five hikes received a free Kids Passport to Adventure water bottle and certificate of completion.

An expanded Kids Passport to Adventure will return in May 2007 with the addition of family cycling trips. Our goal is to distribute more passports and greatly increase the number of people completing the program.

REI's recommended hikes from the Passport to Adventure program can be viewed by visiting <http://www.rei.com/kidspassport>



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CONSERVATION REI'S GEAR BANK PROGRAM

Today, many youth-focused nonprofit organizations across the country aren't able to schedule hiking and camping trips because they cannot provide the necessary gear to children due to limited resources.

REI's Gear Bank program helps remove this barrier by offering free camping essential rentals to children involved with nonprofits. Our program helps facilitate a positive outdoors experience for today's youth - many who are able to enjoy their very first wilderness experience. REI's Gear Bank is currently offered in five cities -

- Bloomington, Minn.
- Denver
- Los Angeles
- San Francisco
- Seattle

Apparel and equipment provided by the program includes raingear, tents, sleeping bags and pads, backpacks, camping stoves and cook sets.

In 2006 REI's Gear Banks supported 117 nonprofit organizations, resulting in 2,291 young people able to experience the outdoors.



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CONSERVATION

PROMOTING ENVIRONMENTAL AWARENESS IN KIDS (PEAK)

Together with our partner, the Leave No Trace Center for Outdoor Ethics, we developed an interactive program to teach children about environmental ethics in 2001. The program, called Promoting Environmental Awareness in Kids (PEAK), has become one of our most effective programs to educate youth in an engaging, fun and interactive way.

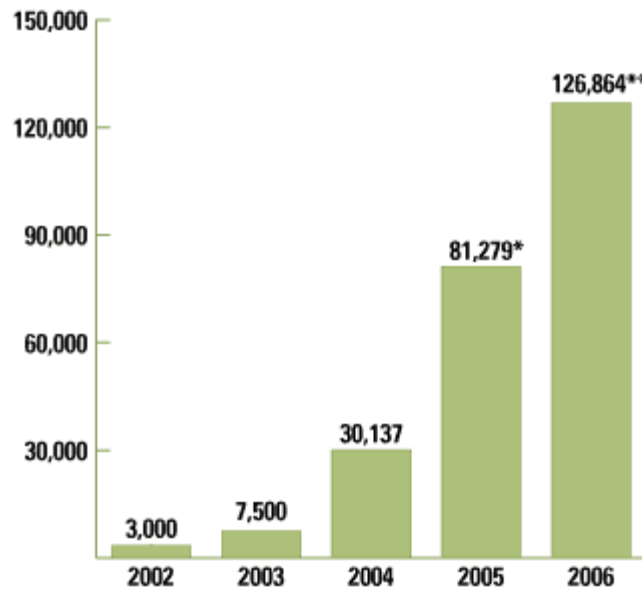
The PEAK program consists of an REI backpack stuffed with essential gear for outdoor adventure, as well as games, activities and lessons designed for different age groups. REI employees give PEAK presentations in their stores and communities, and the program is available through Leave No Trace to educators, camp directors, youth group leaders, outdoor guides and individuals interested in teaching about the maintenance and preservation of shared public lands for future generations.

In 2006 we expanded the program by introducing new lessons that appeal to teens, and thus created the opportunity to educate a greater number of youth on how minimize their impact while enjoying the outdoors.

For more information about PEAK, visit www.rei.com/aboutrei/reikids02.html or www.lnt.org/programs/peak/index.html



NUMBER OF YOUTH REACHED VIA PEAK



*Of this number, about 51,000 children were educated by REI employees

**Of this number, about 76,000 children were educated by REI employees

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GIVING COMPREHENSIVE APPROACH EMPLOYEE LEADERSHIP

Annually, we conduct a workplace giving campaign called the REI Charitable Action Campaign. The voluntary program extends our core value of "service" via personal philanthropy and provides REI employees another opportunity to make a difference.

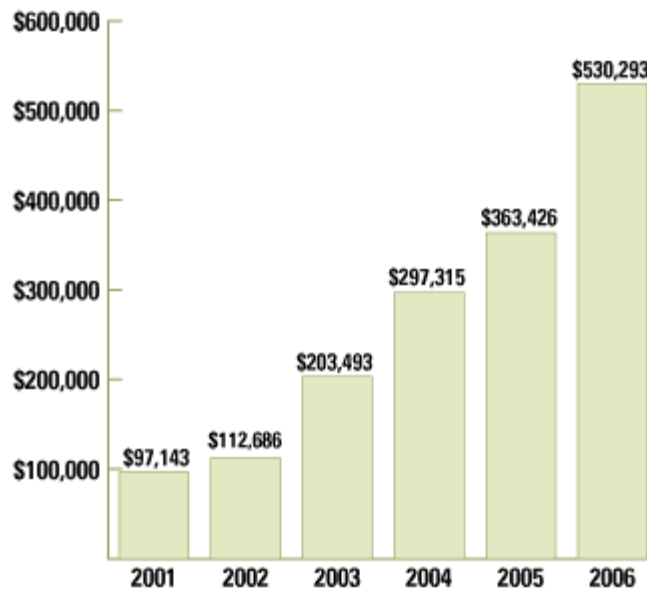
During the campaign, the company matches up to \$1,000 of each employee's contributions to any 501 (c) (3) nonprofit. In our 2006 campaign, 1,154 employees collectively donated \$530,293—a 35 percent increase in participation and a 46 percent increase in contribution dollars from the previous year. More than 900 nonprofit organizations around the world received a total of \$957,013.

As our company continues to grow and more employees join REI, so has our budget for this program and our collective impact on our communities. See the chart below for employee contributions from the past five years.



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EMPLOYEE CONTRIBUTION TO REI'S CHARITABLE ACTION CAMPAIGN



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SUSTAINING OUR NATURAL WORLD

For nearly 70 years, REI has supplied gear and apparel to outdoor enthusiasts of various abilities and recreation interests. Our cooperative's long-term success depends on shared and wild places.

The decisions we make in our business operations can have large impacts on the natural world. Through our choices and the influence we can have on our industry, our supply chain and our customers we hope to minimize negative impacts and maximize benefits. It is not practical for us to attempt to address all impacts at the same time.

As a result, we have established priorities based on inputs from stakeholders, internal and external. This does not mean we ignore other issues, but it does mean we have attempted to measure the impacts, establish goals and focus our efforts in four main areas:

- Taking action on **reducing our carbon footprint by thoughtful energy use**, given the enormous environmental risks posed by climate change.
- Adopting **green building** design and construction standards for REI stores and facilities in the future.
- Ensuring our **paper purchases** come from known sources and well-managed forests, and that we use paper efficiently.
- Reducing the amount of **waste** we generate through recycling efforts and reuse of materials.
- **Designing and manufacturing our products and packaging** with a sustainability mindset by increasing the use of sustainable materials, eliminating harmful components and minimizing product life cycle impacts.

We have chosen to report on the areas of our business where we believe we can have the greatest potential for improvement. In each chapter, we report our short-term solutions and articulate our long-term aspirations.

We welcome your feedback and invite you to take our [survey](#). You may also email us directly at stewardship@rei.com.

Climate Change & Energy Use



Products & Packaging



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Waste



Green Building



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 - iv. Sharing our Success
 - v. Healthcare Benefits for Part-Time Workers
 - vi. Adoption Assistance
 - vii. Creating a Diverse and Inclusive Workplace

PEOPLE

The biggest reason for our continued success is our passionate employees who inspire and educate our co-op members and customers for outdoor adventures. In our 2006 report, we highlight some of our offerings that help our employees continue to be inspired and engaged in the company vision.

Similarly, we are focused on efforts to help assure our factory partners are providing, safe and humane working conditions for their workers. REI has conducted factory audits to ensure compliance with our labor standards and helped advance an industry-wide toolkit that provides a common set of standards to be shared and used by outdoor companies companies.

REI's Stewardship Report contains the following sections:

More information, please visit our [Workplace](#) and [Factory Compliance](#) sections.

We welcome your feedback and invite you to take our [survey](#). You may also email us directly at stewardship@rei.com.



Factory & Labor Compliance



Workplace



FORTUNE
100 BEST
COMPANIES
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CONSERVATION

INSPIRING ACTIVE & RESPONSIBLE RECREATION

We aspire to involve more consumers in safe and responsible outdoor recreation by serving as a resource to our members, customers and communities. Our employees in green vests provide helpful information they have gained from their personal experiences and training, and assist in the selection of the most appropriate apparel and equipment. In many ways, we consider REI as a gateway to the outdoors.

Our passionate employees facilitate opportunities for learning through programs such as [Outdoor School](#), outings led by REI staff that teach new activities or improve existing skills in a day. Examples of activities include hiking, paddling, mountain biking and photography.

Our stores also offer a wide range of classes each month that range from bike maintenance, backpacking basics, triathlon training and support, geocaching, bird watching and much more. REI staff and local outdoors groups lead the educational sessions. To learn more about your local REI store offerings, visit <http://www.rei.com/map/store>.

As a service to recreation clubs and conservation nonprofits, we donate meeting and event space at our stores across the country. We also help bring awareness to their causes by allowing them to post volunteer announcements and event information on our store Outdoor Resource Center bulletin boards.

Recognizing that organizations in our communities play an important role in engaging others in outdoor recreation, we are proud to support their efforts through REI's grants program. In 2006, some of our localized giving included:

- American Canoe Association (Springfield, Va.)—REI supported the Association's Boater Safety and Conservation Clinic that educates the local paddling community about skills for safe water recreation and the preservation of the Potomac River Watershed.
- Bend Paddle Trail Alliance, Inc (Bend, Ore.)—REI helped fund the design and layout of a guide for the Deschutes Paddle Trail, 110 miles of river and 22,000 acres of lakes. The printed guide enables users to access the trail that is appropriate for an individual's paddling skill and interest.
- Carolina Climbers Coalition (Raleigh, N.C.)—Through its mission to preserve climbing areas, promote education and safety, the coalition received a matching grant from REI. By acquiring Laurel Knob, the tallest rock face in the eastern United States, the coalition will open the recreation area to the climbing community and engage participants in stewardship efforts.
- Wilderness Inquiry, Inc. (Minneapolis, Minn.)—Wilderness Inquiry strives to integrate people with and without disabilities in a shared wilderness experience in order to break down barriers for both groups. REI's grant helped cover the costs of scholarships for 15-18 individuals who would otherwise be unable to participate in the program offerings.



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CLIMATE CHANGE & ENERGY REDUCING GREENHOUSE GAS EMISSIONS

The evidence is undeniable that greenhouse gases (GHG), such as methane and carbon dioxide (CO₂), have accumulated in the atmosphere and have reached historically high levels. These gasses are creating a "greenhouse" effect and causing average temperatures to rise, resulting in changes to the earth's climate. Scientific consensus points to human activity as a significant cause of GHG, in particular the burning of fossil fuels such as coal, petroleum and natural gas.

We believe REI and other businesses can contribute to the solution by reducing and eventually neutralizing the CO₂ emissions that result from our operations.

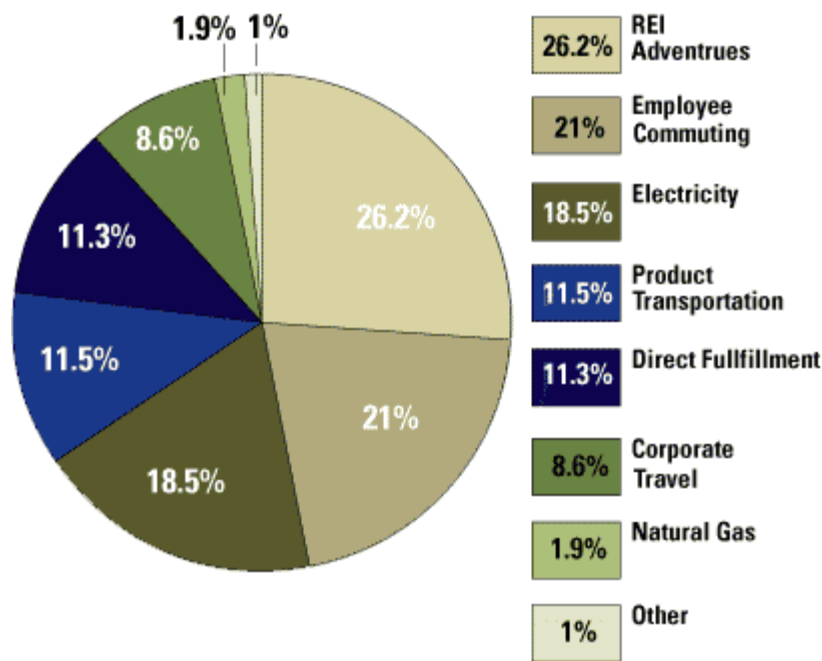
By 2020 REI wants to be a climate-neutral company—that is, we will reduce or eliminate our GHG emissions or find ways to compensate for any emissions we fail to eliminate by investing in offsetting reductions. We believe that if done well, these efforts will deliver both environmental and business benefits, such as reducing costs and therefore will contribute to the long-term financial strength of the co-op.

Eliminating CO₂ emissions is an ambitious aspiration, but we will work toward finding solutions. Setting an aggressive interim goal is a good way to start, and we are committed to reducing our CO₂ emissions by one-third from 2006 baseline level by the end of 2009. Our goal is challenging because REI's compounded growth of over 10 percent would mean that our emission would increase by more than one third without an aggressive reduction plan.

Our GHG reduction efforts have included: [energy efficiency](#), [green power purchases](#) and [carbon offset investments](#).

See the details of our Green House Gas inventory by clicking on the segments in the pie chart: How we computed our inventory

REI'S 2006 GREENHOUSE GAS EMISSIONS



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SUSTAINABLE PRODUCTS & PACKAGING

REI strives to be a leader in innovation by designing products that meet the evolving needs of our customers. Within the outdoor industry, continuous innovation has resulted in hi-tech, lightweight fabrics and materials that have led to cost effective gear and apparel with performance that was unheard of just a few years ago.

This experience inspires us to pursue the idea of designing and delivering innovative products that meet our customers' technical needs and are consistent with our stewardship goals. For example, products that reduce negative environmental and social impacts from materials sourcing, product production and end of life disposal.

Moreover, we believe we have a unique opportunity to educate and inspire our customers about the merits of sustainable products while helping to encourage product and materials developers to innovate to meet this emerging demand. Our next steps will focus on:

- [Assessing materials and life cycle impacts of products](#)
- [Factory standards, restricted substances and packaging](#)



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RESPONSIBLE USE OF PAPER

Preserving healthy forests is important to our members, our business and vital to the future of our planet because of the critical role forests play in contributing to air quality, sustaining clean water sources and providing habitat. At the same time, paper and forest products can represent a sustainable natural resource providing economic opportunities for communities.

REI strives to reduce any negative impacts of our paper usage. We have an opportunity to use the strength of our brand and industry position to help influence the supply chain to move toward sustainable forestry and better environmental performance.

REI's Paper and Forest Products Policy

In 2006, through a collaborative approach with our stakeholders, including industry representatives and environmental advocates, REI introduced a [new paper purchasing policy](#). The links below identify the key sections of our policy and provide the 2006 measurements and performance results.

- [Thoughtful and efficient use of paper](#): We strive to use paper thoughtfully, including systematic consideration for environmentally preferred alternatives and recycled content. In 2006 our paper efficiency metric improved from 2005 and we decreased the use of virgin paper fiber.
- [Tracking the origin of our paper](#): We strive to know the origin of the paper we buy all the way back to the forest through a documented chain of custody.
- [Sustainable sources](#): We strive to eliminate the use of paper from unsustainable forest practices and commit to purchase from well-managed sources, such as those certified by the Forest Stewardship Council (FSC).
- [Environmental performance](#): We will encourage supply-chain partners to exceed legal compliance and innovate toward environmentally and socially responsible business practices.)
- [Recycle at least 75% of the paper](#) we use in our operations by 2009.
- Report on our progress annually through our stewardship report.



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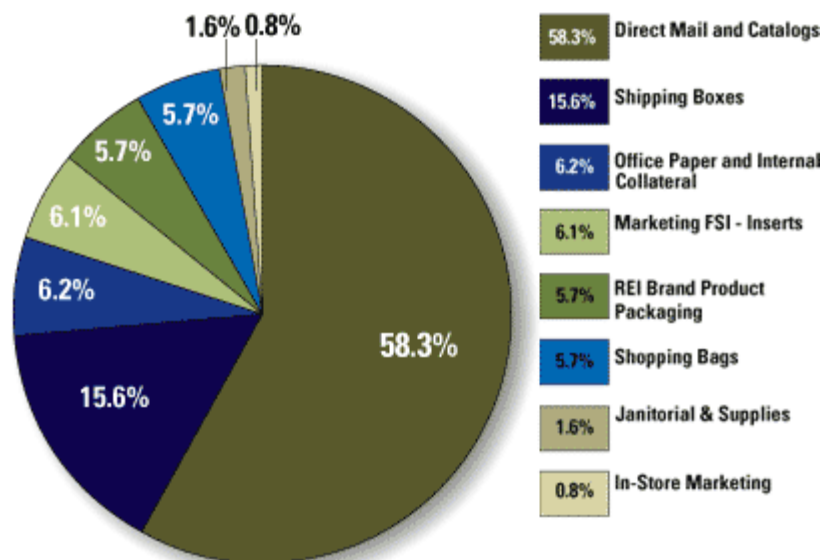
Responsible Use of Paper

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2006 ESTIMATED PAPER USAGE (6,491 TONS)





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REDUCING WASTE

REI has a financial and environmental interest in reducing the amount of waste we create in our operations. While we want to reduce our total amount of waste, we also want to make sure that what we generate is destined for recycling rather than landfills.

Our aspiration is that by 2020 REI will be a zero waste to landfill organization. In other words, all the waste generated by the company will be recycled or repurposed.

At this time, we recycle 67 percent of our retail waste by volume—82 percent by weight. In order to make progress toward our zero waste aspiration, we have identified the following three goals to accomplish by 2009.

- Reduce waste to landfill for all locations by 50% from our 2006 baseline
- Eliminate hazardous materials from our waste stream
- Recycle 75% of all the paper we purchase for operational use.

[REI's Waste Baseline Data](#)[Making Improvements to Reduce Waste](#)

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GREEN BUILDING

"Green building" is an environmentally responsible approach to design and construction that optimizes the energy efficiency of a structure, reduces its environmental impacts, and when done well, results in buildings that have lower operating costs and are more comfortable and healthier to be in.

As REI's growth leads to more retail stores, distribution centers and other facilities we realize that not only would our cost of operations increase, it would be increasingly difficult to meet our environmental commitments. This includes reducing greenhouse gas emissions or managing our waste stream. The result has been to make green building a priority so that we can minimize impacts and reduce measures such as our average energy usage per square foot.

REI has been at the forefront of green building. In 1993, we began designing and constructing our Seattle flagship store, which opened three years later. Our process started with community and member involvement, which helped identify and prioritize the "green design" elements developed for the store. Many of these features became part of the [U.S. Green Building Council's Leadership in Energy and Environmental Design \(LEED\)](#) evaluation criteria.

Since 1996 we've built on the work done for our Seattle store and enhanced the use of green design elements in all of our new store construction projects.

In 2004, our Portland, Ore., location became the first retail store in the country to earn LEED-Commercial Interior (CI)® Gold. In 2006, our Pittsburgh store earned LEED-CI Silver certification.

In support of our commitment to green building, we established goals in two areas:

- [Using the U.S. Green Building Council's Leadership in Energy and Environmental Design \(LEED®\)](#)
- [Energy Efficiency](#)

To learn more about REI's future plans in green building, [click here](#).

Why do we build "green?" We have four key objectives:

- **Enhance the retail experience for customers and employees:** We want our stores - as well our distribution center and headquarters - to be inviting and pleasant environments. Green building techniques such as natural lighting and better air quality are important contributors to the experience for members, visitors and employees.
- **Reduce the cost of ownership:** Although some aspects of green building can initially be more expensive, over time the reduced cost of operations and maintenance (i.e., lower energy bills) delivers financial rewards. Green building is not only the right thing to do, it's good for our business as well.
- **Minimize our environmental footprint:** Green building incorporates recycled materials, conserves precious resources such as energy and water, and reduces waste - all of which help minimize our environmental impact.
- **Align the store experience with the co-op's values:** We want our buildings to reflect our commitment to stewardship and meet the expectation of our members for REI to be environmentally responsible.



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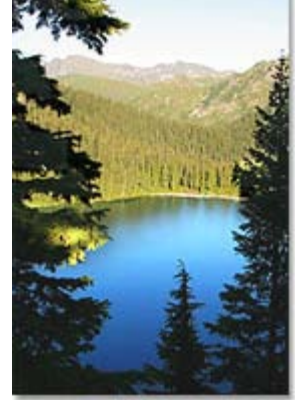
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CLIMATE CHANGE & ENERGY ENERGY EFFICIENCY MEASURES

In 2006 REI's electricity and natural gas usage resulted in 17,674 tons and 1,840 tons of CO2 emissions respectively.

By adding six to eight new stores per year, we have a natural growth in energy needs which works against our goal to reduce the amount of energy used. As a result, we work to build [efficient new buildings](#) and invest in energy efficiency upgrades for existing systems. For example, in 2006 we retrofitted the lighting system at our distribution center in Sumner, Wash. This resulted in saving of approximately 1 million KWhrs—enough to operate three REI stores—and saved the company approximately \$100,000 per year. Further, we increased and improved the quality of lighting for our employees.



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CLIMATE CHANGE & ENERGY GREEN POWER PURCHASES

In 2006 REI made a commitment to buy 100 percent of our electricity from new renewable energy sources anywhere in the United States where we can find green power offerings that meet our renewable energy requirements.* By year end, we had signed multi-year energy contracts for 20 stores, totaling more than 11 million kilowatt hours or approximately 20 percent of our total electricity usage.

Our actions have been recognized by the Environmental Protection Agency's Green Power Partnership, where we rank in the top 10 retail green power purchasers in the country.

Wind, solar and other renewable power choices reduced our 2006 GHG emissions from electricity usage by about 31 percent from 2005. In addition, by using renewable energy we reduced our exposure to fossil fuel markets and saved an estimated \$100,000 by avoiding fuel cost surcharges and other rate increases.

We are currently working with utility companies and third-party suppliers to encourage them to offer high-quality commercial green power contracts in more areas so that REI and other businesses in our communities can take advantage of the benefits of renewable energy.

* REI's renewable energy requirements include long-term direct energy contracts and the use of the Green-e certification standard.

[Renewable Energy specification](#)

[Our current list of green energy purchases.](#)



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CLIMATE CHANGE & ENERGY

CARBON OFFSET INVESTMENTS—MAKING REI ADVENTURES CARBON-NEUTRAL TRAVEL

[REI Adventures](#), our adventure travel company, offers organized packages ranging from one-day local trips through the [REI Outdoor School](#) to once in a lifetime treks to some of the world's most remote and beautiful places. When done responsibly we believe that adventure travel can benefit local economies and promote the stewardship of natural environments and cultures.

Despite all the positives of "green travel," there is an unavoidable environmental impact. Even though today's aircraft are more efficient, planes continue to consume considerable amounts of fuel and consequently generate significant GHG emissions.

Air travel associated with trips taken through REI Adventures, contributes more than 26 percent of all the greenhouse gases generated by the cooperative. Since no bio-jet fuel is yet available, our most effective solution to the impacts of travel is to offset the GHG emissions by reducing GHG emissions in the same amount someplace else, for example promoting the use of renewable energy in place of coal or natural gas generation.

In 2006, REI partnered with Bonneville Environmental Foundation to develop the nation's most significant carbon-neutral travel program. As of January 1, 2007, we automatically offset all of the CO2 generated by REI Adventures travel with no additional cost to customers.

To do this, we are purchasing Green Tags, or renewable energy credits, sufficient to offset total GHG emissions generated on every trip - from the travelers' home airport and back. This program will off-set an estimated 25,000 tons of CO2 in 2007.

For more information about REI Adventures carbon-neutral travel program [click here](#).



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CLIMATE CHANGE & ENERGY REI'S GREENHOUSE GAS INVENTORY—REI ADVENTURES

REI Adventures, our adventure travel company, served 4,000 clients in 2006. The GHG impacts associated with REI Adventure travel were determined by calculating the miles between a traveler's home airport to the final destination and back. Our method to compute the numbers was based on the [Climate Neutral Network's](#) system.

In 2006, we partnered with Bonneville Environmental Foundation to develop the nation's most significant carbon-neutral travel program. As of January 1, 2007, we automatically offset all of the CO2 generated by REI Adventures travel with no additional cost to customers via Green Tags, or renewable energy credits. This program has the potential to offset 25,000 tons of CO2 in 2007. For more information on [Green Tags](#).



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CLIMATE CHANGE & ENERGY REI'S GREENHOUSE GAS INVENTORY—MOVING PEOPLE

Transporting people is a crucial element of running a business. REI employees are on the go, whether it's commuting to and from work, visiting stores around the country or building relationships with our contract factories. Similar to our decision about when to count the impacts of goods, we needed to define when to count the impacts associated with moving people. For reporting purposes, we count the impacts when people are going places due to REI's business needs. We strive to find sensible ways to reduce the impact that our travel has on the environment, such as subsidizing alternative transportation for commuting employees, while supporting essential corporate travel that is aligned with our business and company culture.

Employee Commuting: Estimated 21% of total GHG emissions

At the end of 2006, we had more than 9,000 full- and part-time employees nationwide, most commute back and forth to work. We count the GHG emissions generated by our employees' commuting patterns because it is a significant part of our GHG impact and a challenge we need to address. Offering commuting options will not only help offset some of REI's GHG impacts, it can enhance our employees' quality of life and may ultimately improve our ability to recruit and retain great people.

In 2006, REI used two methods to compute the CO2 impact of employee commuting. We conducted a detailed employee survey about commuting habits at our Kent, Wash., headquarters, where approximately 750 REI employees are based. This survey revealed actual miles traveled, type of transportation (i.e., single occupancy vehicle, bus, bike or train), and the number of days employees are using each commuting method. Based on this, we found that our headquarters employees approximately 4.5 million single occupancy vehicle miles and 2 million miles by other means - biking, van pools, etc.

For employees at our Sumner, Wash., distribution center and at our 89 retail locations, we used a sample process to estimate of commuting patterns and compared this data to survey results from our headquarters. We then estimated our impacts nationwide.

In 2007, we will complete a full baseline analysis. To reduce REI's impact in this area, we will continue to encourage alternative transportation through public transportation subsidies, vanpools, bike work and various rewards.

Corporate Travel: Calculation 8.6%

To determine the GHG emissions for corporate travel in 2006, we used our travel booking software and computed the total miles flown for all employees, which was 12 million miles. We then used a calculator for CO2 per passenger mile based on the computations published by the Climate Neutral Network.



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CLIMATE CHANGE & ENERGY

REI'S GREENHOUSE GAS INVENTORY—ENERGY

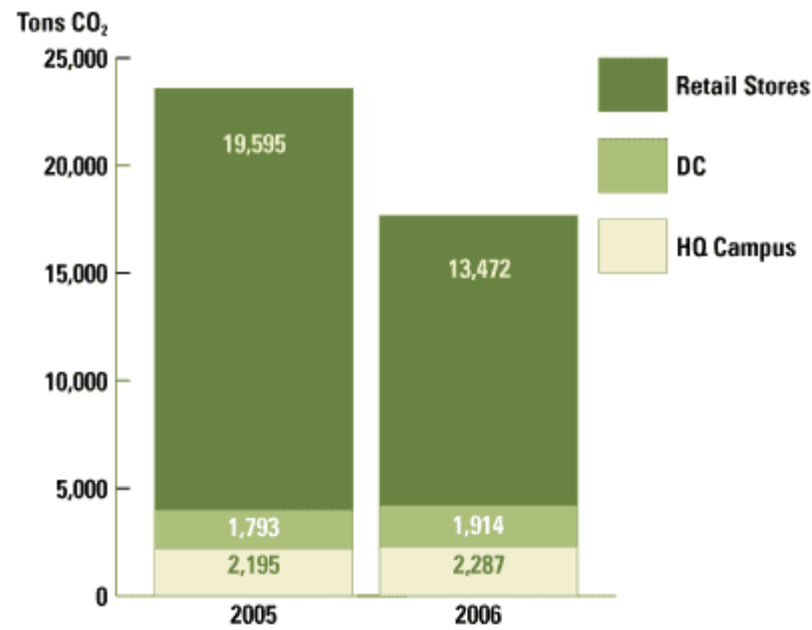
From heating and air conditioning to lighting our stores, REI's use of electricity and natural gas equated to 19,514 tons of CO₂ in 2006. While the natural gas burned in our stores is a direct emission, we also count any fossil fuel emissions from the generation of electricity as part of our inventory.

Our primary strategy is to reduce energy use by aggressively investing in energy efficiency in new construction and existing stores and buildings. This business decision reduces long-term costs and exposure to future energy cost increases.

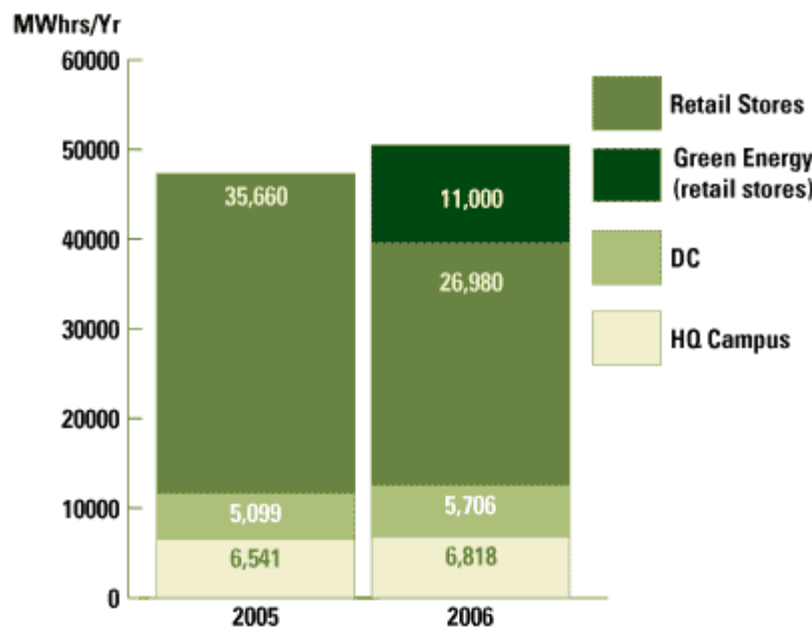
Electricity—Calculated 18.5%

REI's electricity consumption was calculated based on the kilowatt hours from electricity bills for our stores, headquarters and distribution center. The data provides a baseline for setting energy consumption goals across the cooperative. We used the [EPA Power Profiler](#) and the location and energy use of every store and facility to compute the CO₂ emissions. In Washington State, because of the large percentage of our usage and the significant differences between utilities generation mix in the Northwest, we used KWhr usage by location and the CO₂ emissions per KWhr for each utility as reported to the Washington State Department of Community Trade and Economic Developments (CTED) for 2005.

REI ELECTRICITY USAGE CO₂ TONS



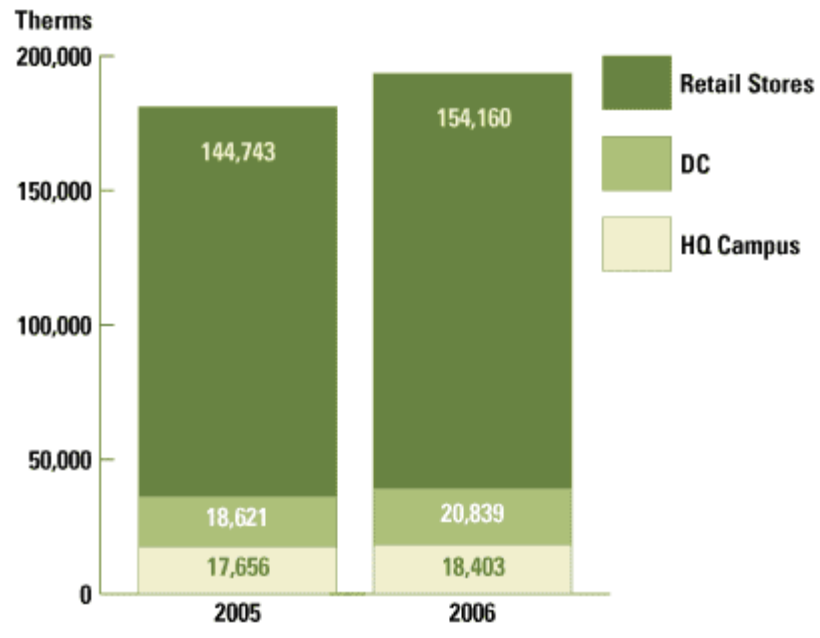
REI ELECTRICITY USAGE MWhrs



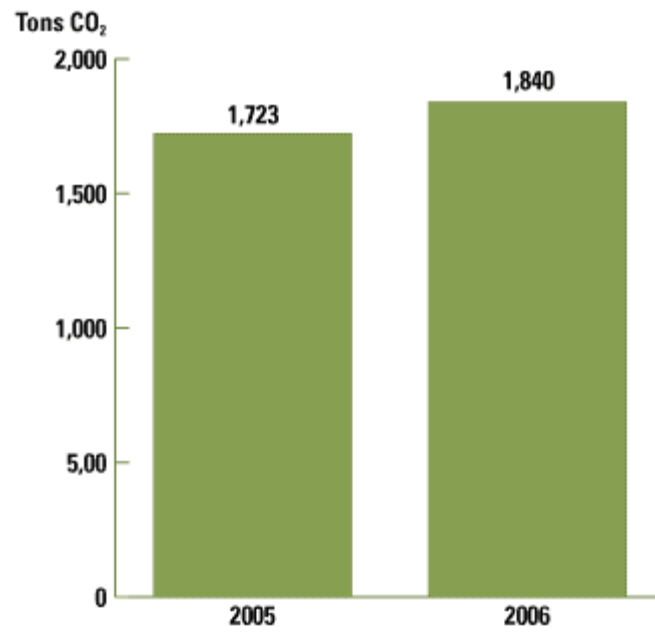
Natural Gas—Calculated 1.9%

REI uses natural gas primarily for domestic hot water and some space heating. The use of natural gas is part of our overall energy intensity goal. Because it represents 2% of our total CO₂ emissions, we have not yet set a specific goal in this area.

REI NATURAL GAS USAGE



CO₂ FROM NATURAL GAS





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CLIMATE CHANGE & ENERGY REI'S GREENHOUSE GAS INVENTORY—TRANSPORTATION

Fossil fuel consumption associated with transportation represents more than 50 percent of all REI's GHG emissions, half of which is related to moving people and the other results from transporting products. Moving people includes business travel and employee commuting. The transportation of products includes shipping goods from manufacturing facilities to our distribution center and then to our stores. This figure also counts the emissions generated from shipping products directly to our Internet and catalog customers.

Moving Products—22.8% of total GHG emissions

Transporting gear and apparel from factories around the world to our stores and members is a complex task. To create our GHG inventory, we made a judgment about who owns the emissions with each leg of the journey. For reporting purposes, we attribute the transportation impacts to whoever owns the goods at the time or whomever schedules and controls the transportation. For example, when a vendor ships products from their location to our distribution center, we take responsibility because we pay for shipping and control the method and timing of deliveries. We also include the emissions resulting from sending product by truck from our distribution center to stores, or when we fulfill an Internet order by shipping a package via a carrier such as UPS. This approach means REI assumes responsibility for emissions in three areas: goods inbound (for vendors or factories to our distribution centers or stores) ; intra-company transfers (shipments from our distribution center to our stores, between stores, or from stores back the distribution center); and direct fulfillment (Internet and catalog sales shipped directly to customers).

Increases in REI's GHG impacts could potentially result from the growth of our business, in particular increasing the number of stores and factories that supply our goods, and additional use of air transport to fulfill direct next day customer orders. On the other hand, the 2008 opening of our distribution center in Bedford, Penn., which provides the distribution point for stores East of the Mississippi, will help to reduce total truck miles, resulting in less GHG emissions and lower logistical costs. In 2007 we will work to identify consistent metrics and methods to calculate our transportation impacts, and develop specific action plans with milestones to address them.

Goods Inbound:

This category has three sub-sections:

Sea shipments. This calculation is primarily shipments of REI brand gear and apparel from overseas factories to U.S. ports and then to our distribution center. We computed the impact of container loads based on the container-miles. We used CO₂ per container mile data published by the clean cargo group accounting for the average of all container ships.

Truck transportation for vendors to our distribution center is computed by a ton-mile calculation used the vendor location, distance of the shipment and the freight weight to arrive at a total ton-miles of freight. The CO₂ impact per ton mile is derived from the average values published for "less than truckload" freight shipments consistent with our method in inter-company transfers.

Direct delivery to stores from vendors occurs via parcel post and the CO₂ impacts have been computed based on total ton-miles of freight multiplied by the average impacts of parcels computed in the same way as our direct fulfillment section.

Intra-company transfers:

This category is dominated by less-than-truckload freight transportation of goods from our distribution center to our retail locations around the country. We do not own a truck fleet, but contract for common carrier freight services. This category also includes the occasional transporting of goods between stores and shipments back to the distribution center and the impacts of using our vans to move people and mail between facilities.

Our method of calculation is to measure total tons of cargo, number of deliveries and the distance from the distribution center to each store. We use these factors to compute a total freight "ton-miles" traveled. National average truck fleet data for fuel mileage (7 miles/gallon) and truck hauling weight) along with a standard conversion from diesel fuel gallons to pounds of CO₂ (22.2 pounds/gallon) This gives us a factor for pounds of CO₂ per freight ton-mile. Multiplying our total freight ton-miles by this factor gives a reasonable calculation of our CO₂ impact.

With the opening of our East Coast distribution center, we anticipate emissions to decrease in this category in 2007 due to a reduction in truck miles. In addition, we hope to benefit from new packaging solutions aimed at reducing packaging weight. Over the long run, we hope to work with freight companies that utilize emissions reduction solutions, such as alternative fuel vehicles.

Direct Fulfillment:

This category includes fulfillment of customer orders placed via the REI catalog or at REI.com or REI-OUTLET.com. The majority of these shipments go through the United Parcel Service or other carriers such as FedEx or the U.S. Postal Service. To compute our CO₂ impact, we separated shipments between ground and air transportation.

For ground shipments, we assume a delivery directly from our fulfillment center in Sumner, Wash., to the customer. While this neglects the possible shipment routes to and from the carrier's logistical system, we think it is a fair representation of the distance traveled. To simplify calculations, we have assumed the average shipping distance is 1342 miles (delivery to Denver). We computed the total CO₂ impact based on our average package

weight shipped for that distance and used the same CO2 factor computed for truck delivery.

For shipments by air, we neglected any ground component because the air impacts are so large that it makes the ground portion negligible. To account for the CO2 per air mile, we used the passenger air travel factor developed by the Climate Neutral Network. However, we adjusted the impact for the average weight of a package compared to a person. This may overstate the impact because cargo transportation is more efficient in terms of pounds per aircraft, but it has the benefit of consistency with our other reported metrics. In 2007 we may revisit this calculation and readjust our baseline based on feedback from stakeholders.



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CLIMATE CHANGE & ENERGY REI'S GREENHOUSE GAS INVENTORY—OTHER SOURCES

There are other sources of GHG emissions that result from REI's operations, although further assessment is needed to fully define and quantify these activities. Based on various industry benchmarks. For example, potential impacts could result from hydrofluorocarbon gas that escapes from air-conditioning systems during routine maintenance or because of a malfunction. To account for these miscellaneous impacts, we estimated the percentage that these sources represent in REI's operations, which totaled approximately 1,000 tons or 1% of our total inventory. In 2007, we will examine this area more closely and report any resulting adjustments we make to our inventory.



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CLIMATE CHANGE & ENERGY REI'S GREENHOUSE GAS INVENTORY

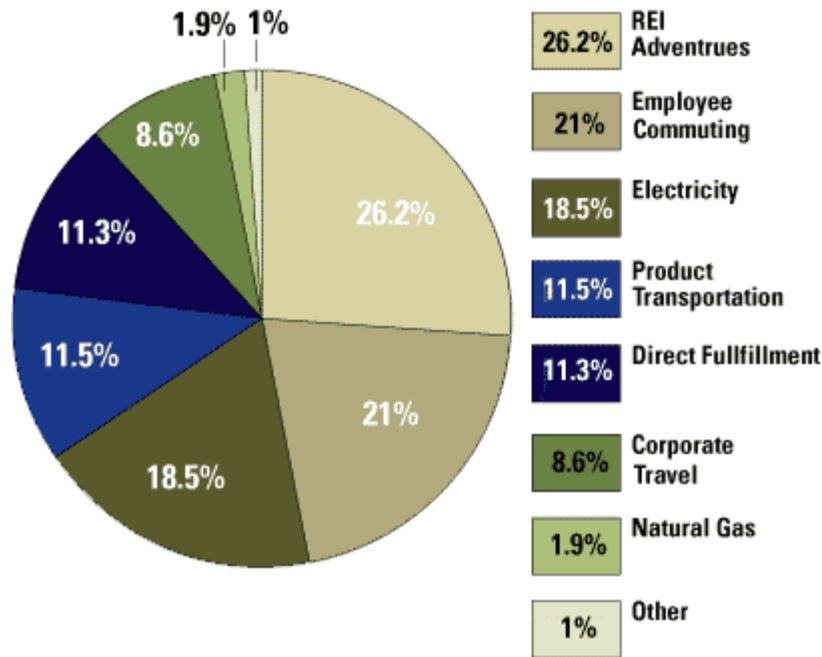
Establishing the Baseline

Using internationally recognized methods, such as the World Resources Institute protocol, REI undertook our first complete GHG inventory in 2006. We determined our GHG emissions could be broken down into three main categories—energy, transportation and "other sources"—for which we've either completed a baseline or estimated our CO2 output. With this knowledge, we set priorities and began working toward long-term reductions. Click on the sections of the pie chart for details of how we computed emissions in each category and our actions so far.

In the areas where we estimated our emissions, we plan to complete detailed studies in 2007. We will also periodically reevaluate whether to include certain emissions classes based on the evolution of the industry.



REI'S 2006 GREENHOUSE GAS EMISSIONS



Click on each category for more detail.

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- vii. Inspiring Active & Responsible Recreation
 - REI Outdoor School
- viii. Engaging Youth
- ix. REI Kids Passport to Adventure
- x. REI's Gear Bank Program
- xi. Promoting Environmental Awareness in Kids (PEAK)

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ACTIVE STEWARDSHIP

As part of REI's purpose to inspire, educate and outfit our members for a lifetime of outdoor adventure, we aspire to involve more individuals, groups and communities in outdoor recreation and outdoor volunteerism.

With the simple call to action of "Join us!", active stewardship is deeply embedded in the company and the way in which the co-op operates. Our goals are simple - invite and engage more people to enjoy the outdoors and the benefits of a healthy, active outdoor lifestyle; protect and enhance recreational lands and opportunities; and nurture a new generation of outdoor stewards.

To be effective we focus our efforts in the areas of [conservation](#) and [recreation](#), with engaging [youth](#) as a priority. We also believe the most meaningful and powerful work can be done directly in the local communities working side-by-side with grassroots clubs and organizations. As such, all REI's giving and outreach is centered on strong community relationships.

We use many tools in our work. Just as the co-op shares its profits with members through the annual patronage dividend, we also share the co-op's success with our communities by setting aside a portion of our income for [giving](#). In 2006 these donations exceeded \$4 million. Since 1976 we have donated more than \$20 million to nonprofit organizations that offer conservation and recreation programs

In addition, we leverage our retail stores, online presence and the passion of our employees and members in making a difference in every community in which we operate. With operations in more than 90 communities, our combined efforts make REI a growing and important supporter of conservation and recreation causes around the country.

While there is no lack of opportunity, we've steadily built on these efforts and are pleased to show the comprehensive results of our work in this report.

We welcome your thoughts about our progress and invite you to take our [online survey](#) or send us your comments to stewardship@rei.com.





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[An Introduction to LEED](#)

Learn about the internationally recognized certification system LEED, what it measures, what it delivers, and how to get started.

[LEED Rating Systems](#)

Learn about the Leadership in Energy and Environmental Design (LEED) Green Building Rating Systems™, the nationally accepted benchmarks for the design, construction and operation of high performance green buildings.

[Certification Tools & Resources](#)

Find all the resources you need to help you achieve LEED certification, including reference guides and templates for submitting your project's documentation.

[Certification Programs & Application Guides](#)

LEED certification provides independent, third-party verification that a building project is environmentally responsible, profitable and a healthy place to live and work. Learn about the LEED certification process, the application guide for multiple building projects, and the program for volume certification

[LEED Professional Credentials](#)

LEED Professionals are individuals who have demonstrated a thorough understanding of green building practices and principles and familiarity with LEED requirements, resources and processes. The LEED AP and LEED Green Associate credentials are a mark of professional excellence recognized throughout the industry.

Announcements

[Prepare for LEED AP, LEED Green Associate Exams](#)

Learn how to prepare for the LEED AP and Green Associate exams: USGBC courses, reference and study guides and other resources can give you the knowledge you need to earn a LEED Professional Credential. [LEED AP and Green Associate exam prep »](#)

[Access the NEW LEED Interpretations and Addenda Database Interface](#)

The database interface has been improved to be more user-friendly and intuitive. New additional functionality will also help project teams share information with each other. [Learn more: Informational Webcast Nov. 15 »](#)

[MPR Supplemental Guidance Revision released Sept 1](#)

The MPR Supplemental Guidance helps project teams understand if their building or space meet the MPRs.

Frequently Asked Questions



FAQ

[LEED Green Building Rating System](#)

Frequently Asked Questions

[More FAQs](#)





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GREEN BUILDING USING THE USGBC LEED® PROGRAM

We selected the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED)® standard as our measurement for green building. These standards are constantly reviewed and improved by an extensive stakeholder process that we believe results in the best accepted measure of environmental considerations for buildings available.

Structures that meet LEED criteria are built with consideration to the environmental issues of materials and emphasize water conservation, energy efficiency and indoor air quality. Our staff architects, one of whom is a LEED-accredited professional, work with leading architectural firms that have designed new and remodeled buildings with the LEED standard as the guide.

LEED certification can be an expensive process. However, as the industry becomes more familiar with these methods and alternative products become more available, we have seen costs decrease.

An important note is that we use LEED as a measure of meeting our green building goals, not as the goal in itself. For these reasons we have chosen to set our goal for green building to self assess using the LEED point system and meet or exceed what would be the LEED certified level for all new REI buildings. On a case by case basis we will decide if the LEED application process makes sense for that project.

We are also a pilot user of the LEED-Retail standard which we hope will greatly streamline the application process and make formal LEED certification much more cost effective.

In the end, we believe achieving our green building goals will be win-win for our business, members, communities and the environment.



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GREEN BUILDING

ENERGY EFFICIENCY

We recognize that energy use is a main contributor in our environmental performance, as well as a significant cost of doing business. In our [climate section](#) we report on the greenhouse gas impacts of electricity and natural gas use. We also state our goals for reductions through [energy efficiency and the use of renewable energy](#).

As part of our green building commitment, by 2009 we aspire to have the lowest energy usage per square foot in each of three building classes—retail stores, distribution centers, and office buildings (REI headquarters campus).

In 2007 we will consider the Department of Energy baseline information for existing building, peer information and other sources to convert our "best-in-class" objective into specific targets for each type of building.



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GREEN BUILDING

REI'S FUTURE IN GREEN BUILDING

Boulder Colorado: REI's Prototype Store

The next step in achieving our green-building objectives is to create a prototype store that incorporates experimental ideas. We have selected the remodel of our Boulder, Colo., store and have chosen to work with Gensler Architects, a leading design firm and champion of sustainable design.

Scheduled for completion in the fall of 2007, the prototype will embody the values that make REI unique -- community involvement, environmental stewardship and a commitment to serve as a gateway to the outdoors.

The Boulder remodel will be a state-of-the-art facility that highlights a number of new concepts to REI. For example, light from roof-to-floor solar tubes will provide as much as 25 percent of the daytime illumination. A solar thermal hot water system will provide the majority of the building's hot water for things such as employee showers and customer restrooms. We also plan a state-of-the-art Building Integrated Photovoltaic (BIPV) system that will integrate solar electric glass panels into the skylight structure allowing day lighting and generating a portion of the store's electricity at the same time. Other features from low VOC paints and materials to no-flush urinals will help environmental issues such as indoor air quality and water efficiency. As part of the project, a computer-simulated model will measure how small changes - such as a sunny day versus a cloudy one - affect energy costs.

The prototype will serve as a working laboratory to help us determine where we can improve our environmental footprint and make fiscally responsible choices. The Boulder store will be one of three prototype locations that we will use to create a new standard in REI store designs. The other two have yet to be determined.

BOULDER, CO: REI'S PROTOTYPE STORE



REI's Green Distribution Center in Bedford, Pennsylvania

With more than 20 REI stores east of the Mississippi River and our Sumner, Wash. distribution center struggling to keep up with the co-op's growth, it is time to open our second distribution facility.

We selected Bedford, Penn. for our new 525,000 square foot facility. As we considered our needs we held sessions to develop our goals for green building at such a large, complex facility. With the help of the green design firm, the 7 Group, and our commercial developer Lauth Construction we have set a target of building one of the first LEED-certified distribution facilities in the United States.

With majority of construction scheduled to be finished in 2007, the facility is anticipated to be fully operational in early 2008.

Before construction, rather than demolishing a serviceable structure, we worked with Habitat for Humanity and moved a house to a new location where it was reconditioned and given to a local family. During construction we are recycling over 75% of the site waste and even running the earth moving equipment on 20% biodiesel fuel. The facility will feature energy-efficient lighting, low-impact landscaping with native plants, and building materials with minimal off-gassing all of which will help make this project a leader in green building for the commercial construction industry.

REI'S GREEN DISTRIBUTION CENTER IN BEDFORD, PA





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CLIMATE CHANGE & ENERGY GREEN POWER PURCHASES

We have established both environmental and financial/contractual minimum requirements for green power offerings. REI strongly prefers Green-e certified products and requires both transaction audits and source verification based on the green-e standard.

Environmental

The source must be new renewable energy generation qualifying under the most recent Green-e certification requirements.

Financial

The product must offer a financial "hedge" against future energy price escalation, particularly risks associated with fossil fuel costs. This may be accomplished via a medium to long term fixed price energy contract, contractual protection from fuel cost surcharges or other contractual means. This requirement favors direct energy contracts and some bundled energy products but generally excludes Renewable Energy Certificate (REC) options.

Audit

The source and chain of custody must have a clear and independently verified audit trail at least as robust and transparent as green-e certification.

Pricing

REI is prepared to pay a premium for green power contracts. The maximum premium is usually greater than 1 cent per KWhr but may vary by location depending on factors such as underlying cost volatility, avoided generation mix and other factors.

- [Denver, CO](#); XCEL Energy; source: wind
- [Englewood, CO](#); XCEL Energy; source: wind
- [Boulder, CO](#); XCEL Energy; source: wind
- [Grand Junction, CO](#); XCEL Energy; source: wind
- [Lakewood, CO](#); XCEL Energy; source: wind
- [Colorado Springs, CO](#); Community Energy; source: wind
- [Fort Collins, CO](#); Fort Collins Utilities; source: wind
- [College Park, MD](#); Clean Energy Partnership; source: wind
- [Timonium, MD](#); Clean Energy Partnership; source: wind
- [Rockville, MD](#); Clean Energy Partnership; source: wind
- [Bloomington, MN](#); XCEL Energy; sources: wind
- [Roseville, MN](#); XCEL Energy; sources: wind
- [Eugene, OR](#); Eugene Water & Electric; source: wind
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- [Houston, TX](#); Green Mountain Energy; source: wind
- [Houston-Willowbrook, TX](#); Green Mountain Energy; source: wind
- [Plano, TX](#); Green Mountain Energy; source: wind
- [Pittsburgh, PA](#); Community Energy; source: wind
- [Brookfield, WI](#); WE Energies; sources: wind, landfill gas and solar
- [Madison, WI](#); Alliant Energy/WP&L; sources: wind, landfill gas and solar



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RESPONSIBLE USE OF PAPER NEW PAPER PURCHASING POLICY

Final Draft

September 21, 2006

Preamble

The REI co-op is committed to Stewardship as a core value of our business. Part of stewardship is the responsible use of resources and an interest in using our purchasing leverage to help motivate sound practices within our supply chain. We are committed to responsible use of forest resources and the mitigation of negative environmental impacts from the harvest and processing of paper products that we purchase. REI fully supports responsible forest management practices that promote forest sustainability, biodiversity and long-term shared environmental, social and economic benefits.

REI will achieve the goals of this policy through a step-wise, continuous improvement approach to responsible purchasing of paper products. This offers a pragmatic and workable mechanism while valuing our long term relationships with supply chain partners.

REI will measure performance against established goals and timelines and will report progress to our Board of Directors, Co-op members and the public.

REI has established the following policy commitments:

- **Responsible/ Efficient Use of Forest Products**

Wood and paper are renewable natural resources that, when sourced under a responsible program, can represent a sustainable material choice. We will create and maintain purchase specifications for the responsible sourcing of each category of paper products, and we will always strive to use paper products responsibly.

Recycled content and alternative fiber sources will be evaluated on a total life cycle assessment basis and will be our preferred source whenever business criteria, product performance and other category specific metrics, as well as environmental and social impact trade-offs, are favorable.

- **Known Origins (Chain of Custody)**

REI will strive to know with reasonable, verifiable certainty the source of our paper including the source of all virgin wood fiber we purchase. This will be accomplished through contractual supply chain agreements, audits and supplier oversight. The most desirable assurance is a credible, third party certified chain of custody such as that provided by Forest Stewardship Council (FSC) certification.

- **Sources of Fiber**

REI will strive to assure that all paper and wood fiber is legally harvested and traded and is not obtained from controversial sources such as harvesting and processing in areas that violate human rights, areas where the timber trade is driving armed conflict, areas that are being actively converted from natural forests to plantations or non-forest uses or which use timber from genetically modified trees. We will also strive to eliminate wood or fiber harvested in ways that promote environmental degradation, and we will not knowingly source from High Conservation Value Forests (HCVF) unless such forests are certified under a credible certification program such as FSC.

- **Environmental/Social performance of supply chain partners**

REI is committed to sourcing from supply partners, sub-tier suppliers and mills who uphold a high level of environmental and social performance. Compliance with applicable regulations is a minimum; however, we will give preference to suppliers who can demonstrate a commitment to minimum impact operations and have a track record of continuous improvement through a formal Environmental Management System. Tools such as the Environmental Performance Assessment Tool (EPAT) will facilitate our ability to measure and compare supplier performance.

- **Commitment to recycling at REI—"Closing the loop"**

REI is committed to the principal of "closing the loop" for paper and paper products. We will strive to assure that paper and wood products used in our operations are recycled or reused.

- **Reporting/Evaluation**

REI will publish an annual report of our Key Performance Indicators showing our progress toward meeting the goals of this policy and will annually evaluate the policy, goals and acceptable certification/validation systems.



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RESPONSIBLE USE OF PAPER EFFICIENT USE OF PAPER

Paper can be a sustainable materials choice, but our first step is to make sure we use it wisely with a systematic look at alternatives. For many years, we have used catalogs and flyers as an important tool for communicating with our members and prospective customers. Direct mail represents 60 percent of our total paper usage.

In order to measure and improve on the efficiency with which we use paper, we selected three key performance indicators:

- Co-op wide paper tons per sales dollar
- Direct mail paper tons per sales dollar
- The tons of virgin fiber per sales dollar

While the overall growth in our business may result in an increase in the absolute tons of paper we use, holding ourselves accountable to reducing the amount of paper per dollar is our way to measure paper efficiency.

Over the past few years we have undertaken many steps to improve our efficient use of direct mail including reducing our catalog page counts, increasing electronic communications with members and testing better papers such as lighter basis weight or increased recycled content. The result has been that we have achieved consistent year over year improvements in paper efficiency including an improvement by more than 15% from 2005 to 2006.

PAPER EFFICIENCY TABLE

	2004	2005	% change	Estimated 2006	% change
Annual Sales (MM\$)	\$887	\$1,022	15.2%	\$1,182	15.6%
Total Paper (Tons)	N/A	N/A		6,491	
Total paper Efficiency (MM Sales/ \$/Ton)				0.18	
Total Virgin Fiber (Tons) 26.6%				4,828	
Virgin Fiber Efficiency (MM Sales \$/Tons)			0.24		
Direct Mail Catalog/Flyer Paper (Tons)	3508	3769	7.4%	3785	0.4%
Direct Mail Paper efficiency (MM Sales \$/Ton)	0.25	0.27	7.2%	0.31	15.1%



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RESPONSIBLE USE OF PAPER TRACKING THE ORIGIN OF PAPER

The paper supply chain is vast, complex and involves suppliers at many stages - from forest to logs to pulp, and mill to paper to printed materials. REI has adopted a full "chain of custody" model, an approach that includes entities throughout the paper supply chain, beginning with the forest where the tree was harvested all the way to REI's point of purchase.

Our objective is simple: We want to know the origin of the virgin wood fiber that goes into our paper so that we can ensure it came from acceptable sources. By 2009, our goal is to have 98 percent of all our paper obtained from "certified" or "known" chain of custody suppliers. To achieve this goal, our paper supply partners must be willing to share their records with us and be open to regular audits. Working with suppliers that have chain of custody certification from the Forest Stewardship Council (FSC) is the best way to have this assurance.

In 2006, 79% of our virgin paper fiber was purchased from suppliers that we deem to have "known" chain of custody. We will be working with suppliers to move from "Known" to "Certified." However, our emphasis for the next few years will be to identify the "unknown" sources because of the risk that if we don't know the origin, it could be from an unacceptable source.

CHAIN OF CUSTODY GOALS

	Estimated 2005	2006	2007	2008	2009
Unknown	29%	20%	20%	10%	>2%
Known	71%	79%	77%	80%	83%
Certified	0%	>1%	3%	10%	15%
Total	100%	100%	100%	100%	100%

- 2005 data is estimated for comparison only.
- To measure our progress toward this goal we have set out yearly targets; however, continuous improvement and the 2009 goal are the priority over specific intermediate steps. Based on progress and annual results we may readjust performance targets.

Defining Chain of Custody

Chain of Custody: The linked set of companies or entities that have held legal ownership, or physical control of a given paper product between the point of harvest and the point of purchase by REI.

Known, but not certified: The chain of custody will be deemed "known" if each supplier from fiber source to REI is under contractual obligation and is able to disclose proof of their source including purchase agreements, inventory records, etc sufficient to demonstrate that the product purchased by REI can be attributed through each step of the supply chain back to the source. In addition, this chain of documentation is contractually subject to audit by REI or its designated auditor. A certificate of conformance should accompany each delivery of material from the supplier attesting to the source. Chain of custody certification under certification programs such as those recognized by Programme for Endorsement of Forest Certification schemes will be sufficient to meet this requirement.

Certified: The chain of custody will be deemed "certified" if each party in the supply chain has received certification by FSC or a system deemed equivalent in the future.



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RESPONSIBLE USE OF PAPER SUSTAINABLE SOURCES

Once we are assured of the origin of the wood fiber through our chain of custody requirement, we can assess whether the source is acceptable. REI has categorized fiber sources modeling our definitions on the work of international industry groups working on sustainable forest issues, including the Forest Stewardship Council and the World Wildlife Fund's North America Forest & Trade Network plus input from stakeholders representing the paper industry, independent experts and advocacy groups.

To measure our progress in purchasing from acceptable sources, we have established a baseline, using estimated purchases from 2005. We are reporting our results for 2006 along with the yearly targets for the next three years.

SOURCES OF FIBER GOALS

	Estimated 2005	2006	2007	2008	2009
Unknown	16%	19.8%	12%	7%	>2%
Recycled	20%	25.6%	22%	27%	30%
Undesirable		1.8%	4%	8%	>5%
Acceptable	64%	52.8%	57%	48%	48%
Certified		0%	5%	10%	15%
Total	100%	100%	100%	100%	100%

- 2005 data is estimated for comparison only
- To measure our progress toward this goal we have set out yearly targets; however, continuous improvement and the 2009 goal are the priority over specific intermediate steps. Based on progress and annual results we may readjust performance targets.

Definitions:

Undesirable: Paper and wood fiber that is the product of illegal logging or obtained from controversial sources, such as harvesting and processing, in areas that contribute to human rights violations, areas where the timber trade is driving armed conflict, areas that are being actively converted from natural forests to plantations or non-forest uses or which use timber from genetically modified trees or sourced from high conservation value forests (HCVF) unless the source is certified under a credible certification program such as FSC.

Acceptable: Acceptable sources of fiber are those that are not undesirable sources, although they have not been formally certified.

Certified: Sources that have received certification by FSC are automatically considered to come from acceptable sources.



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RESPONSIBLE USE OF PAPER ENVIRONMENTAL PERFORMANCE

Harvesting wood from well-managed forests is only one step of influencing positive change. We also work to set high expectations for the environmental practices of the mills, processors and printers. Suppliers are expected to follow environmental, health and safety laws and regulations, such as controlling toxic air and water emissions and managing waste systems. To encourage suppliers to move beyond the legal minimum and innovate to improve environmental performance, we are working to implement the Environmental Paper Assessment Tool (EPAT), a system that has been developed over the past two years by the Paper Working Group and with guidance from [Metafore](#).

EPAT includes a variety of environmental metrics. In 2007, we will begin using this tool and encourage our suppliers to do the same by giving preference to those that demonstrate continuous progress toward minimizing their environmental impacts and embracing various measures. These measures include using renewable energy, reducing greenhouse gas emissions and toxins, and making capital investments in improved technology.



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RESPONSIBLE USE OF PAPER RECYCLING & REUSING PAPER

While we are working to increase recycled fiber content in our paper, we also strive to improve our internal recycling efforts and reusing materials whenever possible. By the end of 2009, our goal is to recycle 75 percent of the paper we use in our operations. In 2006, we believe office paper, boxes and other paper used in operations was almost 22% of our paper purchases. In 2007, we will develop and implement a consistent means of measuring the portion of this number that is recycled.



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UNDERSTANDING REI'S WASTE & RECYCLING FOOTPRINT

In 2006 we gathered data on the amount of waste we produce, the percentage we recycled and what materials make up our waste stream. The purpose was to establish a baseline to measure our progress in the coming years.

Our retail baseline was completed through a collaborative research project with graduate students in sustainable business from the Bainbridge Graduate Institute.

To launch our study, we analyzed all material discarded by four representative REI stores. This information helped us develop a survey that was conducted at 14 additional stores selected as a representative sample. The survey was based on a sample week of waste stream. The resulting information was extrapolated across the remaining 71 stores in order to develop the overall waste stream baseline estimate.

In 2007 we plan to develop a systematic way of measuring and reducing our waste.

This information is not definitive, but is being used to develop our system of metrics and reporting. Additionally, it helps us identify early opportunities for improvements.



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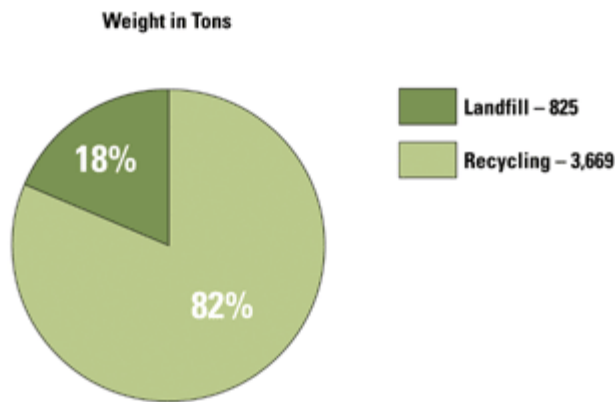
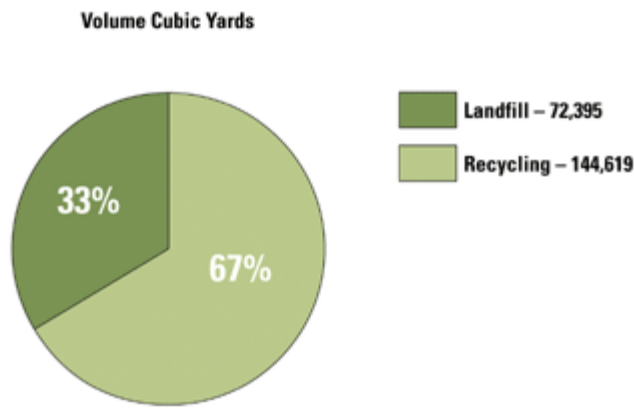
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Waste Stream

2006 Estimated Waste Stream—Retail Stores





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MAKING IMPROVEMENTS TO REDUCE WASTE

While we are already recycling a significant amount, our efforts have not been consistently applied across our business. One reason is that municipal and commercial recycling programs differ around the country. It may come as a surprise, but in some areas, these services are not available to commercial users like retail stores.

In 2006 we started overcoming this obstacle by working with a third-party recycling company, Smurfit-Stone, to identify and implement recycling opportunities for base commodities - cardboard, paper, glass, plastic, aluminum. We now have systems at almost all locations and are working to make the process less costly and more efficient as well as continuing to find acceptable recycling solutions for any outliers.

We've established systems to eliminate known material hazards from the landfill. For example, our Information Systems division has recovered and properly recycled over 13,000 pounds of obsolete or broken computer equipment with a certified e-waste manager.

We also implemented a pilot recycling program to keep small batteries and compact florescent light bulbs out of the trash at our 22 California stores—a program we intend to roll out to all REI stores in 2007.



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SUSTAINABLE PRODUCTS & PACKAGING ASSESSING MATERIALS & LIFE CYCLE IMPACT

REI uses a life cycle assessment approach when considering the environmental impacts of products. This process has led us to make materials choices that have lower impacts from origin to end-of-useful life. For example, the use of organic cotton and other natural fibers such as hemp or bamboo and the use of recycled synthetic fibers. In 2006 we launched a line of socks made with fibers spun from renewable, biodegradable and recyclable corn-based plastic.

While these efforts have undoubtedly reduced negative impacts, it is difficult for product developers to measure environmental effects and compare material choices in a way that enables them to make informed trade-off decisions in selecting materials and new production processes.

It can also be challenging for consumers to evaluate the environmental attributes of a particular material or compare one product to another. Without some recognized means to identify products that show improved performance, consumers can't factor this issue into their purchase decision.

We know through our experience in introducing innovations such as lightweight equipment, women's-specific gear and apparel, and waterproof and breathable outerwear, that consumer demand plays an important role in driving innovation in the industry.

In 2007 and as a first step, we will develop a consistent approach for assessing and communicating environmental attributes. We will introduce an icon in our product labeling to help consumers identify products that have lower impacts supported by a list of materials that we believe meet generally accepted hurdles for improved environmental performance. Our goal is to have a technically credible yet easily identifiable way for customers to be informed of the environmental characteristics of products.

To further educate our customers, information will be added to REI.com that provides transparency on how REI's product developers decided on materials, including the pros and cons of incorporating the materials into finished products.

In order to make future progress, REI will engage with industry peers, outside experts and other stakeholders to develop a common approach to assessing the environmental performance of products. As industry standard language and definitions emerge from that process, we will update our work as necessary and keep customers informed of progress.



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SUSTAINABLE PRODUCTS & PACKAGING FACTORY STANDARDS, RESTRICTED SUBSTANCES & PACKAGING

Our approach to the future of responsible products starts with our current efforts to develop and encourage current best practices for how products are made—particularly for factory standards, restricted substances and packaging.

Factory standards: Ensuring that products are manufactured in [factories](#) with acceptable safety and labor practices is a critical first step. We apply these standards to REI-brand products and are taking additional steps to encourage that high standards are maintained in factories producing all other brand products we sell.

Restricted substances: We are collaborating with a new group of companies called the Apparel and Footwear International RSL Management Working Group (AFIRM) on the implementation of a next generation restricted substances list (RSL). The RSL is a step beyond compliance with U.S. law and requires that materials defined by the group not be present in REI brand gear and apparel products and that their use is minimized or eliminated from the production process.

In 2007, we will work to increase awareness about the need for a common RSL process among our peers who manufacture non-REI branded product. With a shared commitment to the RSL, we hope to advance efforts aimed at eliminating specific chemicals, additives, dyes and fixers from the manufacturing process—a move that will help to improve conditions for the individuals who make gear and apparel, reduce negative impacts on the environment, and eliminate potential risks to the consumer.

Packaging: REI is working on strategies to redesign and minimize our product packaging, while providing important product information and protection during shipping. Our progress to date includes developing creative packaging techniques, such as "self-packaging" for duffel bags, backpacks and tents, and incorporating environmentally friendly paper stock into some of our packaging and signage.

We joined the [Sustainable Packaging Coalition](#) and we will use our industry experience to help generate new ideas and technologies.

Going forward, we want to further align product packaging with our other sustainability objectives, such as using sustainable forest products, minimizing waste and maximizing recycling.



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FACTORY & LABOR COMPLIANCE

REI sources manufactured products both domestically and globally.

Increasingly, consumer goods are being manufactured around the world, often in emerging markets. While global manufacturing benefits consumers by delivering high-quality products at competitive prices, there have been justified concerns about the conditions workers face in contracted manufacturing facilities.

Over the past decade, global companies and contract suppliers have sought to move factory standards for labor and safety to globally accepted standards. Addressing the global manufacturing process, also known as the supply chain, is extremely complex because it crosses vast geography, cultures, and government and political systems.

REI has been working for over a decade with the goal of assuring that factory working conditions where REI brand gear and apparel are made meet our expectations. Our focus is two-fold:

- Working to achieve factory compliance in the contract facilities where our products are manufactured
- Working collaboratively with our industry peers on a common set of compliance standards where non-REI branded products are manufactured

We are pursuing this work with the longer range goal that all goods sold in REI stores be manufactured in factories with a demonstrated track record of meeting internationally recognized labor and safety standards. We have two interim goals to pursue compliance in the factories that produce REI branded gear and the other products we sell.

- Annual improvement by our manufacturing locations regarding internationally recognized labor and safety standards.
- For other branded products sold at REI, we have set a goal that, by the end of 2009, will require documented evidence of labor compliance for the factories where these products are made. When issues are uncovered, we will take remedial action as needed.



PEOPLE

Factory and Labor Compliance

- Working To Achieve Factory Compliance
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WORKPLACE

From our retail employees who proudly wear our green vests on the sales floor to the support staff in our headquarters and distribution center, REI employees take pride in serving our members and making personal contributions to inspiring people to enjoy the outdoors.

The co-op has been fortunate over the years to attract an engaged, skilled and passionate employee team that today numbers nearly 9,000.

For 10 consecutive years, we have been recognized by FORTUNE magazine on its prestigious list as one of the "[100 Best Companies to Work for in America](#)." In the 2007 list, we rank:

- #27 overall
- #1 among companies that encourage employees to balance work and personal lives
- #11 among mid-sized companies

FORTUNE also recognized REI for launching a program to make healthcare benefits available for all employees.

Based upon an anonymous survey of randomly selected employees conducted by the Great Place to Work® Institute, we were given the organization's 2007 "[Workplace Pride](#)" award. The survey, conducted on behalf of FORTUNE, probed on employees' view of REI's employment offerings and workplace practices.

REI's presence on the "100 Best" list confirms that our employee offerings and benefits are industry leading, and reinforces why REI continues to be an employer of choice.

Our favorable [employee engagement survey results](#) and [turnover rates](#) are additional indicators of our strong workplace culture. In addition to sharing our success by rewarding our employees for their contributions through [incentive pay](#) and [retirement and profit sharing](#) programs, we strengthened our benefits through additions such as [healthcare benefits](#) for part time workers and [adoption financial assistance](#), and formed a companywide effort in support of enhanced [diversity and inclusion](#).

To learn more about REI's comprehensive benefits package and employment opportunities, please visit, <http://www.rei.com/jobs>.



PEOPLE

[Factory and Labor Compliance](#)

Workplace

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- [REI's Employee Engagement](#)
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FACTORY & LABOR COMPLIANCE

WORKING TO ACHIEVE FACTORY COMPLIANCE

Responsible Manufacturing of REI Branded Gear

REI branded gear and apparel represents approximately 20 percent of the items sold by the co-op. We have a responsibility to ensure that appropriate, safe and humane working standards are upheld in the contract factories where our products are made.

Because REI does not own any manufacturing facilities, it is essential that we have strong and trusting relationships with our contract factory partners.

Our Process for Pursuing Compliance

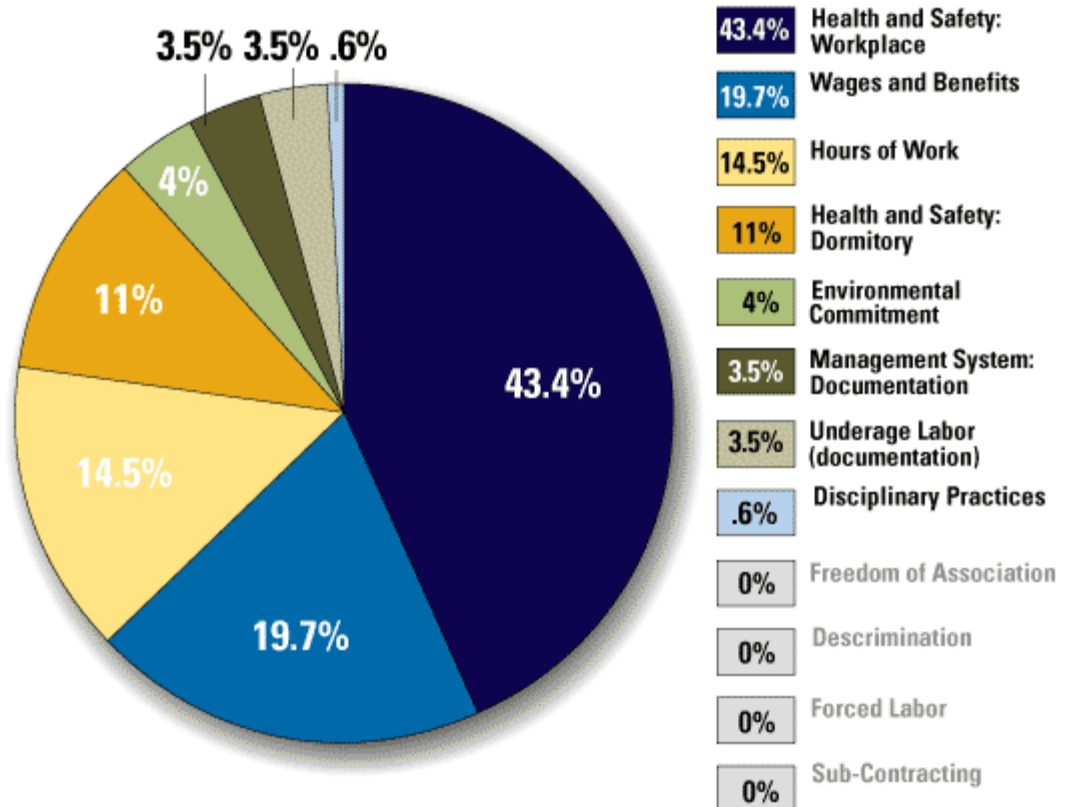
Before contracting with a new factory, we require the factory to provide a self evaluation of its compliance with [REI's policy for labor and workplace practices](#). If the factory reports that it has systems in place and a track record of performance sufficient to win our business, we schedule a full audit. This step is completed by a REI compliance team member or a third-party auditor in which they inspect the factory, interview workers and review payroll and other appropriate records. It is our policy that if violations are found, a corrective program is implemented.

Given the growth of our business and number of new REI products being developed, we need to engage with factories that we previously have not had a relationship with. This puts us at the starting point of building a trusting relationship with a new facility, getting to know how it operates, and learning about its labor and safety practices.

By the end of 2006, REI had completed a full audit of more than 50 percent of its contract factories, representing 94 percent of the dollar value of the REI products. We learned that infractions occur and range from minor issues, such as a malfunctioning water cooler, to more serious problems like the failure to pay overtime at legally mandated rates.

2006 AUDIT VIOLATIONS

(PERCENTAGE OF TOTAL VIOLATIONS)



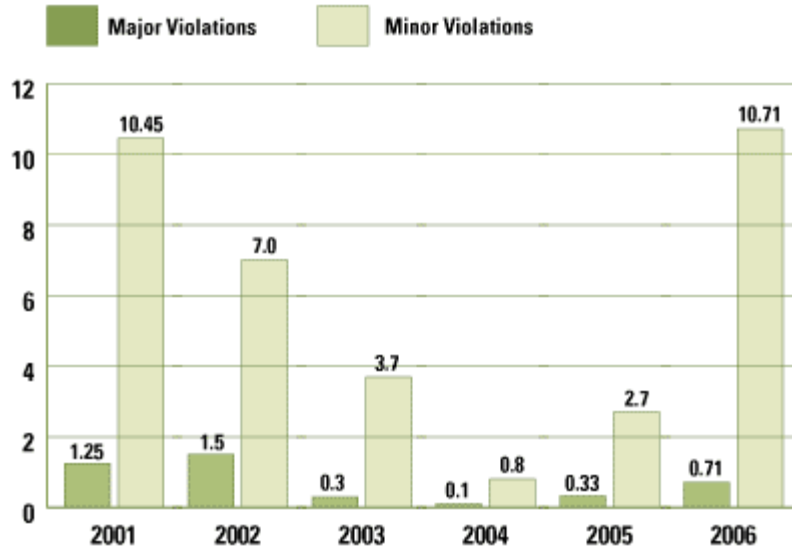
At any workplace, domestic or international, infractions are often found. Most infractions tend to be minor and, when identified, can easily be remedied.

When major problems are discovered, REI is committed to working with our factory partners to remedy issues and determine if progress can be made. Improving a factory's compliance is a process of education that can take a number of years, yet it's an approach that ultimately serves the best interests of those who make our products.

In cases when more serious violations are uncovered. The company's corrective action program requires re-audit and demonstrated improvement. If there is no indication of improvement, REI may consider this to be cause for terminating business. An example of a major violation is when a factory does not provide sufficient employee documentation, which REI considers necessary for verifying all workers are of legal age.

MINOR VS. MAJOR VIOLATIONS

(NUMBER OF VIOLATIONS PER AUDIT)



In the past few years we have seen an increase in audit findings, primarily minor violations. Generally these results do not raise concerns at factories where we have long relationships. We have found that our improved audit process over time has revealed more non-conformances. We are also finding that as we expand the REI brand business and begin relationships with new factories outside of the apparel "cut and sew" industry (i.e. light manufacturing) we tend to find more need for corrective action.

We believe this is driven by the fact that these factories are not as familiar with our standards and the process. We have found that as we establish our relationship with these factories we see significant improvement.

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Product Sourcing Policy

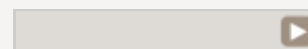
Our responsible product sourcing policy covers:

- **Health and Safety**—Work is placed only in locations where no unusual risks are posed to the safety and well-being of REI's employees. This means we will avoid countries where incidents of political and/or social unrest or other factors may jeopardize the personal safety of our staff.
- **Work Environment**—Suppliers and manufacturing partners are required to provide their workers with a safe and healthy work environment (and living space, as appropriate), in compliance with local laws and regulations.
- **Employment Practices**—Workers may not be younger than 16 years (or younger than school compulsory age, if that is older than 16 years). All forms of forced labor are prohibited. Wages and benefits must meet legal requirements or the prevailing local industry standards, whichever is higher. Preference is given to business partners who work to respond to local community needs and the betterment of their employees' standard of living. Working hours may not exceed 60 hours (regular and overtime combined) per week on a regular scheduled basis, except under exceptional unforeseen circumstances, and overtime is to be compensated appropriately according to local and/or national law. We seek to work with partners who do not discriminate on the basis of race, sex, beliefs, heritage or citizen status, sexual orientation or disability.
- **Freedom of Association**—Vendors are required to recognize and respect the legal rights of employees to free association and collective bargaining, including joining or not joining any association. If a specific country's law restricts the right to freedom of association, vendors are required to allow employees to raise job-related grievances without penalty or reprisal.
- **Environmental Commitment**—We work to conduct our operations in an environmentally sensitive fashion and favor doing business with vendor and manufacturing partners that share our values. Vendors must commit to the disposal of production waste materials in an environmentally responsible manner according to the local laws and regulations. Vendors must also adhere to REI's [restricted substances list](#), which prohibits the use of harmful and/or noxious substances in the manufacture of our products.

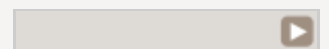
Our responsible sourcing guidelines are based on internationally accepted standards (including those recognized by the [International Labor Organization](#)) and apply to vendors, both domestic and international, of products carrying the REI label and quality promise. Each vendor is responsible for ensuring that its own facilities and those of its suppliers meet or exceed the requirements of REI's policy. Each vendor must also maintain detailed, up-to-date records to document and substantiate compliance with our policy.

We pursue compliance with our sourcing guidelines through several means: inventories of factory practices (or "self-audits"), factory visits by members of our sourcing team and independent third-party audits. We take a long-term, partnership-centric approach and work closely with vendors and factories to ensure compliance and continuous improvements. When we find issues, we work together to understand and correct them in a timely manner. We believe that we can use our position as an industry leader and successful business to help bring about positive social and economic change through partnerships with our vendors. We know that if we walk away from a problem, it may never be solved and people's lives or the environment may be negatively impacted. In the end, if a vendor is unable or unwilling to correct violations, we will no longer do business with them.

We have completed independent audits of the majority of the factories that make products for REI. These factories represent 94 percent of the dollar value of the REI-branded products we sell.

How are we doing? [Give us feedback](#) on this page.**REI Gift Cards**
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FACTORY & LABOR COMPLIANCE WORKING COLLABORATIVELY WITH OUR INDUSTRY PEERS

It is common in the outdoor industry for factories to be contracted to produce products for multiple brands. Moreover, each company tends to have slightly different standards and audit procedures.

REI worked in collaboration with the Outdoor Industry Association and six partners - Black Diamond, Cascade Designs, GoLite, Kelty, MEC and YoungOne (a factory owner) - to develop and introduce the [Fair Labor Toolkit](#) in 2006.

With a widely accepted set of compliance standards and an implementation process, the toolkit is designed to help companies that do not have a compliance system or are too small to afford the resources to develop the mechanism.

By agreeing to a common set of standards under the Fair Labor Toolkit, the process of ensuring factory compliance will be more efficient for all outdoor companies and factories. This will ultimately serve to assure customers that the outdoor products they are buying were manufactured in a manner that is aligned with their values. The toolkit was launched in 2006. In 2007 REI plans to work with its industry partners to support adoption and use of the materials.



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WORKPLACE

FORTUNE "100 BEST COMPANIES TO WORK FOR"

Each summer, the Great Place to Work® Institute, conducts a random survey of employees at hundreds of companies to support the development of FORTUNE magazine's "100 Best Places to Work" list.

In 2006, 400 REI employees randomly received the "100 Best" survey that measured workplace pride, respect, credibility, fairness and camaraderie. These categories are defined by the Great Places to Work Institute "Trust Wheel." The anonymous results are heavily weighted as two-thirds of the final score that determines placement on FORTUNE's list. The list also takes account corporate information submitted by companies regarding individual organization's culture, policies and benefits.

In the 2007 list, we placed 27th in FORTUNE magazine's rankings -- our third-highest overall ranking to date.

Additionally, we were:

- #1 among companies that encourage employees to balance their work and personal lives
- #11 among companies in the mid-size category
- one of six companies based in Washington state
- one of 22 companies to offer fully paid sabbaticals

REI is one of 18 employers included in FORTUNE's list every year since the magazine began compiling the list in 1998, and one of six companies included in two earlier book versions (1985 and 1993).

On the heels of being named to FORTUNE's "100 Best" list, the Great Places to Work® Institute recognized REI as the 2007 winner in its "Workplace Pride" category, thanks to the strong employee responses for our support of employee-initiated philanthropic efforts focused on environmental stewardship and community outreach efforts.



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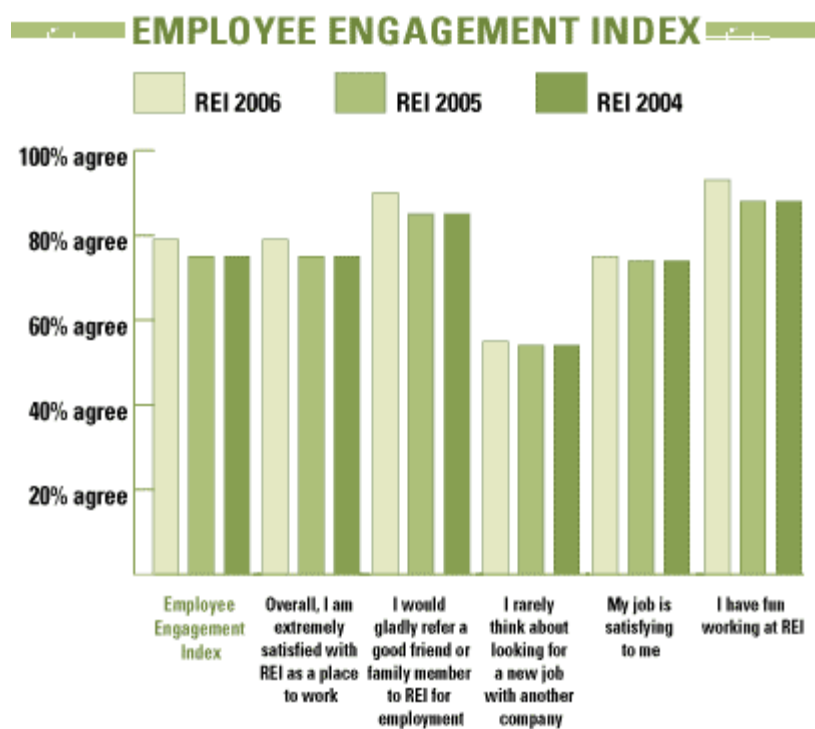
WORKPLACE

REI'S EMPLOYEE ENGAGEMENT

Each fall, we conduct an anonymous companywide survey to gain the valuable opinions of our employees on a variety of workplace topics - from the way we run our business to how we reward our people. Our learnings help us understand what we do well and identify possible improvements to keep REI as a great place to work. The survey is designed to give an indication of how engaged the employee team is in their work and relationship with the company. The level of employee engagement is tracked through questions that examine a combination of satisfaction, commitment, pride and loyalty to the company. The following five questions are analyzed to determine our overall employee index.

- Overall, I am extremely satisfied with REI as a place to work.
- I would gladly refer a good friend or family member to REI for employment.
- I rarely think about looking for a new job with another company.
- My job is satisfying to me.
- I have fun working at REI.

We are proud to report that 79 percent of REI employees indicate they are strongly engaged in their work — the norm for the retail industry stands at 55 percent. The following chart shows results against these questions over the past two years.



Opportunities

While overall engagement is indexed by the responses to five key engagement questions, the core survey consists of 60 questions that measure 13 dimensions of the employee experience. With an engagement score of 79 percent, there are many dimensions in which the company excels. In addition to reinforcing areas of strength, each division is accountable for working on its areas of opportunities.

One of the company's priorities is employee growth and development, and individual managers are encouraged to address opportunities within their teams. In 2007 managers across the company will identify supporting resources needed to ensure that employees continue to have the opportunity to meet their personal and professional goals at the co-op and pursue work that makes good use of their talents and abilities.

Compensation is often viewed in employee surveys as an area of opportunity, and this is no different for REI. REI follows a total compensation philosophy that includes a competitive base pay set at the market median; an incentive pay system that rewards based on company, work group and personal performance; healthcare benefits; and a retirement and profit-sharing plan for eligible employees. The only positions in the company that are set above the market median are REI's retail store managers. These positions are set at 75 percent of market in recognition of the high demand the co-op places on store managers to be business owners for the operation of their stores.

Base pay is carefully reviewed annually and adjusted as required to attract and retain the talent REI needs to serve its members and customers. Every job in the company has a grade based on responsibilities and competencies, and pay ranges are assigned on the basis of a mix of market surveys to ensure market competitiveness.

Based on feedback from a prior employee survey, REI's retail and distribution center divisions changed their pay structure in 2006 to allow new employees the opportunity for a base wage increase within their first six months of their employment. Through STEP!, employees were able to add significantly to their base wages based on their individual performance. This is one of an ongoing series of efforts to ensure competitive pay for our employees.

After the initial STEP! review, store and distribution center employees become eligible to participate in the company incentive plan. Employees at retail have two pay-out opportunities per year. REI is unique as a retailer in offering incentive pay to virtually all employees. Based on REI's strong performance over the past three years, companywide incentive payouts have been above market.

REI's [retirement and profit sharing](#) plan and [benefit plans](#) are also a significant part of the company's total compensation.

REI's executive leadership is compensated in line with the company's overall philosophy. REI makes executive and board compensation available at <http://www.rei.com/aboutrei/financial.html>.



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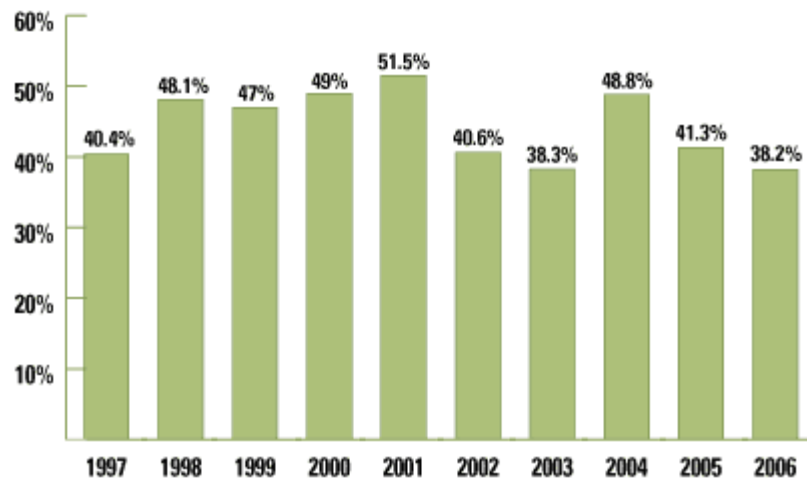
WORKPLACE RETAINING OUR WORKFORCE

We believe our strong workplace culture, sense of ownership that is instilled with each employee, and comprehensive benefits package helps us retain our talented workforce.

Our companywide attrition rate is very low compared to the retail industry. While the average industry turnover is 66 percent, REI's 2006 attrition was 38.2 percent.

REI's attrition average is determined each January by calculating the average number of employees and dividing by the number of voluntary and involuntary terminations.

OVERALL COMPANY TURNOVER





WORKPLACE SHARING OUR SUCCESS

In the spirit of our cooperative structure, we share our financial success with our members, employees and communities.

As a co-op, we strive to return up to 10 percent of our members' eligible purchases through an annual dividend. We have provided a dividend to our members every year since our founding in 1938.

In 2007 we will give \$58 million back to our 3.1 million active co-op members — a 16 percent increase from 2006 when we returned more than \$50 million in the form of a member dividend.

We celebrate our achievements with our employees through incentive pay and an industry leading retirement and profit sharing plan.

Profit Sharing and Retirement Plan

REI offers an exceptional retirement plan to employees who have worked for REI for 12 consecutive months and at least 1,000 hours. We guarantee a contribution of five percent of employees' eligible annual earnings, and up to an additional 10 percent, as company profit allows. We know of no other retail company that offers as generous a retirement benefit.

Based on 2006 performance, we funded the maximum contribution to our employees at 15 percent. We provided \$17 million to 3,605 eligible employees - more than a 21 percent increase from 2005 payouts. Last year, we shared \$14 million in profit with 3,000 employees.

Incentive Pay Program

REI employee pay is market-competitive and performance-based. In addition to base pay, all employees are eligible for the company's incentive pay program, a rarity in the retail industry. Our incentive payout is based on the performance of REI overall, the employee's store/division results and his or her personal job performance. REI's non-retail staff receives incentive pay each February, while our store employees receive pay outs twice annually.

Based on 2006 results, REI funded more than \$18 million through the company's incentive pay program to eligible employees.



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WORKPLACE HEALTHCARE BENEFITS TO WORKERS

REI has long been recognized for having one of the most accessible medical benefit packages in the retail industry.

In 2006 we extended healthcare benefits to all of our part-time employees and their families regardless of the number of hours they worked. This move was recognized as leading edge among employers in the country. Other U.S. companies offer benefits to part-time employees, but none have extended programs with an employer subsidy to staff that work less than 20 hours.

Known internally as the PaTH (Part-Time Healthcare) plan, employees are eligible to enroll in the program 30 days from their hire date. The plan offers medical, dental and life coverage, which can be purchased in combination or separately. REI employees who voluntarily enroll in the plan pay a subsidized medical/dental monthly premium of approximately \$40 with an annual \$150 deductible. The plan includes annual coverage for routine health services such as doctor's office visits and annual exams, as well as hospital care up to \$10,000 and a prescription drug benefit. They receive access to the same network of healthcare professionals as their full-time REI colleagues.

REI's part-time staff receives a medical benefit package if they work a rolling average of 20 hours per week over a six-month period. PaTH is an added benefit for our part-time workforce, including employees who work for the company seasonally or on a temporary basis.

In 2006 the average age of employees participating in the PaTH program was 32 years. Of the 4,500+ part-time employees that were eligible for the healthcare program, nearly 1,200 had enrolled in the program by year-end.



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WORKPLACE ADOPTION ASSISTANCE

Last year, REI introduced adoption assistance to employees who have 12 or more months of consecutive service with the company.

This benefit provides reimbursement of up to \$3,000/adoption/child to assist new parents with expenses directly related to the adoption process. If an REI employee adopts twins, employees are eligible for \$6,000 in financial assistance. There is no limit on the number of adoptions for which an employee may request assistance.

In 2006 six REI employees received adoption reimbursement from REI.

"As an 11-year employee of REI, I am continually impressed by our company's human resources team. The adoption assistance program helped us welcome our second daughter by providing financial resources to help cover some of the costs of the adoption. Additionally, my management team was supportive by being flexible with my work schedule allowing time for our daughter to bond with her new family."

Retail Supervisor in Buford, GA

"I've been fortunate to adopt two daughters while working at REI. In the summer of 2006, we used the company's financial support to help with travel costs associated with bringing our three-year-old daughter with us to China when we adopted her little sister."

REI Headquarters Employee in Kent, WA



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WORKPLACE CREATING A DIVERSE & INCLUSIVE WORKPLACE

With the changing demographic of our country's population, it's important for REI's workforce to be representative of the communities where we do business. By employing a diverse workforce, we will be better positioned to serve our communities.

The spirit of diversity and inclusion is an important aspect of our REI values and service-minded culture. Recognizing the opportunity to create a more multicultural workforce, last year we established three working teams to address employee diversity, leadership and management skills development, and customer and marketplace opportunities.

As part of our company initiative, we aspire to build a more diverse membership base so that we can increase participation levels in active outdoor recreation across the country. We will look for opportunities such as improvements or changes to our marketing efforts, community and company programs, as well as collaborating with others in the outdoor industry so that we can better serve our multicultural population.

REI's working diversity and inclusion action teams include a range of REI employees from store managers to senior leadership. Taking into consideration the company's future growth across the country, each team has been tasked to identify needed resources and develop strategic plans that will help the company proceed mindfully in offering a welcoming and inclusive environment for current and future customers and employees.

Inclusion and diversity are part of REI's strategic plan for the coming year, and we will provide an update on our progress in the 2007 stewardship report.

2006 EMPLOYEE DEMOGRAPHICS

	Employee #s	Percentages
Status	2006	2006
Full Time	2758	32.4%
Part Time	5764	67.6%
Gender	2006	2006
Female	3411	40.0%
Male	5111	60.0%
Ethnic Identity	2006	2006
African-American	157	1.8%
Asian/Pacific Islander	499	5.9%
Caucasian	7464	87.6%
Hispanic/Latin	335	3.9%
Native American/Alaskan Native	67	0.8%
Other Ethnicities	0	0.0%

[SEARCH](#)**FREE U.S. STANDARD SHIPPING** No minimum purchase![SHOP REI](#)[SHOP REI-OUTLET](#)[TRAVEL WITH REI](#)[LEARN](#)[SHARE](#)[MEMBERSHIP](#)[STEWARDSHIP](#)[Camp & Hike](#)[Climb](#)[Cycle](#)[Fitness](#)[Paddle](#)[Snowsports](#)[Travel](#)[Men](#)[Women](#)[Kids](#)[Footwear](#)[All](#)[Sale & Clearance](#)[Gifts](#)

ecoSensitive® Program

Collaborations & Partnerships

Product Life Cycle

Materials

Packaging

Care and Service

REI Stewardship

REI Brand

Novara Brand

What is the ecoSensitive® Program?

The ecoSensitive Program demonstrates REI's long-term commitment to take responsibility for the entire life cycles of our REI-brand and Novara products, from design to manufacture to end-of-life. These brands are unique to REI—designed, developed, and sourced by our cooperative.

The history of ecoSensitive

Since 2005, we've been working to better measure the environmental impacts of the product life cycle. Our biggest discovery: the environmental impact embedded in the products we make and sell is greater than the operational footprint of our retail stores, distribution centers and headquarters combined. This fact hints at the enormously complex and difficult task presented by product stewardship.

In 2007 we created the ecoSensitive label to foster product stewardship. This eco-label provided targets for designers to integrate more recycled content, organic content and renewable materials into our private brands. It also helped us to communicate with our customers and to further reduce our environmental footprint.

In 2010 REI developed a new product stewardship vision: to *understand, disclose* and *actively address* the environmental and social impacts of products in *all phases* of the product life cycle. With this vision, we reevaluated the ecoSensitive label with the intent of expanding its application.

Why transition from a label to a program?

As we reexamined our private eco-label, we began to understand its shortcomings. By addressing materials alone, we were missing opportunities to measure and reduce our impacts at other points in the product life cycle. We had also contributed to the proliferation of eco-labels in the marketplace—a growing challenge for consumers. And perhaps most importantly, we had unintentionally limited our focus to the 25% of our products that were capable of reaching the label's strict requirements.

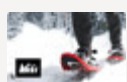
Realizing these limitations, we decided to broaden ecoSensitive from an eco-label to a program. This evolution shifts our focus to all REI-brand and Novara products and to the full product life cycle. The ecoSensitive Program now provides REI with a framework to understand, disclose and actively address the impacts of our private brands.

We continue our collaboration with dozens of companies, nonprofit organizations, and universities in developing a universal framework for measuring product sustainability. We strongly believe that this type of pre-competitive collaboration is essential for expanding sustainability across the entire industry.

How to learn more

Product stewardship is one of our greatest challenges and one of our most exciting opportunities. We are excited to share our journey with you! To learn more about the REI and Novara brands, please explore these pages. We also encourage you to see what we are doing across our retail operations through [Stewardship at REI](#).

How are we doing? [Give us feedback](#) on this page.



REI Gift Cards

[Buy now!](#)[Check your REI gift card balance](#)

REI Membership

REI member benefits include an annual refund (typically 10% on eligible purchases).

[Join REI today!](#)

Sign up for REI Gearmail® and get 15% off selected items!



Store Locator

Locate an REI store near you.



Company Info

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[Jobs at REI](#)
[100% Satisfaction Guarantee](#)
[Corporate & Group Sales](#)
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REI Membership

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[Find Membership Number](#)
[Dividend Lookup](#)
[Apply for an REI Visa® Card](#)
[Manage Your REI Visa® Card](#)

Expert Outdoor Advice

[Expert Advice Articles](#)
[Outdoor Videos](#)
[REI Outdoor School](#)
[Store Events](#)

Online Affiliate Program

[Become an REI Affiliate](#)

Help

[Help Section](#)
[Contact Us](#)
[Live Help](#)
[Order Status](#)
[Returns and Exchanges](#)
[Shipping Info](#)
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ABOUT THIS REPORT

REI's first stewardship report covers the activities and performance related to REI's social and environmental responsibility during the 2006 calendar year. Many of the performance metrics and data shared within this online report include the majority of our operations and facilities (headquarters, distribution centers, retail locations and supply chain manufacturing), unless otherwise noted. Additionally, the 2006 performance data included in this report is mostly baseline and will serve as a reference point for our ongoing reporting in the coming years. Our 2007 report will provide an update on progress made toward the goals we have set in our initial report.

While we hope to keep our online information updated and accurate, the 2006 report as presented here will be archived and maintained with open access for future reference.

Materiality

To determine the most relevant subjects to cover in REI's first report, we considered input from internal and external stakeholders: employees, leadership, REI's board of directors, members and customers, local community constituents, nonprofit partners and advocacy groups. REI's Corporate Social Responsibility Steering Committee, leaders and managers who represent aspects of the cooperative, provided oversight in the development of the report content. REI's board of directors provided input into our goals, metrics and measurement.

Input was not only collected through formal channels, it was also gathered on an informal basis by talking with and listening to a number of our valued stakeholders. REI's business objectives and long-term strategic plans also served as a basis for determining relevancy, as did co-op policies, programs and initiatives. While the process for determining relevancy was primarily a cross-functional internal effort, we consulted with external experts to help establish REI's priorities for reporting on our corporate responsibility and stewardship.

REI's Priorities for Stewardship and Business Responsibility

After thoughtful evaluation of REI's social, environmental and economic impacts we established the following priorities for REI's stewardship and business responsibility initiatives. These include:

- Encouraging the active conservation of nature
- Inspiring the responsible use and enjoyment of the outdoors
- Enhancing the natural world and our communities through responsible business practices
- Fostering opportunities to increase participation levels in human powered recreation, with a focus on today's young people
- Maintaining REI as an employer of choice, where employees are highly engaged in the vision of the company and are representative of our marketplace

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REI, THE CONSUMER COOPERATIVE

Recreational Equipment Incorporated (REI) is a 69-year-old consumer cooperative founded for the purpose of providing high quality equipment to its members and customers for their enjoyment of the outdoors. Our cooperative structure allows us to remain true to our founding vision while providing exceptional guardrails to help guide the organization's growth.

As the country's largest consumer cooperative, we are owned by our members and they elect the company's [board of directors](#). The board oversees the company's policies and performance and guides the co-op in pursuit of our purpose of "inspiring, educating and outfitting for a lifetime of outdoor adventure."

Our goal is to share our financial success each year with members, employees and the communities in which we operate. Company profits are distributed to members in a patronage refund that is proportional to their eligible purchases. Each year, our goal is to return to our members 10 percent of their eligible purchases.

All employees share in the company's success through an incentive pay program. Eligible employees also receive contributions to their retirement plan.

We have a target of setting aside three percent of operating income for our annual donations programs. In 2006 our donations accounted for \$3 million in grants. A special \$1 million grants program brought the year's total giving to over \$4 million. Finally, like any business, we retain a portion of our profits to ensure the financial health and managed growth of the co-op.

REI's co-op structure allows the company to take a long-term business view that is focused on the company's ability to support member needs and the coop's mission, rather than needing to drive quarterly results or direct financial returns for individual owners. We measure our success through healthy, sustained growth, member satisfaction, high employee engagement and a strong commitment to environmental and social responsibility. A five-year view of REI's member growth, member dividend, sales, and profitability (operating income) are available [here](#).

REI's cooperative structure have allowed the company to pursue its business differently than more conventionally structured organizations. [Read more about REI's purpose statement](#), values and guiding principles, [here](#).

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REI'S PURPOSE, VALUES & GUIDING PRINCIPLES

To remain a successful cooperative business, we operate using the following framework

Purpose: To inspire, educate and outfit for a lifetime of outdoor adventure.

REI Values

REI's values guide our culture, character and actions. We hold ourselves accountable to six core values and this commitment is evident in how we work with each other, our members and customers, business partners, and communities.

Authenticity: We are true to the outdoors.

Quality: We provide trustworthy products and services.

Service: We go the extra mile for our members, customers, colleagues and communities

Respect: We nurture a culture that is welcoming and respectful of all people and the environment.

Integrity: We live by a code of rock-solid ethics, honesty and decency.

Balance: We work smart and have fun.

Guiding Principles

In conducting REI's business, REI's management and staff are charged with doing so in a way that follows a simple set of principles. These guiding principles provide the framework for the way in which REI's business is planned, guided and executed.

Market-Driven

We listen, understand and shape our business around the needs of our members and customers. To remain relevant and inspire participation in outdoor recreation we seek to understand and serve a spectrum of customers who vary in age, skill level and preferred activities and tailor our business to serve those who choose to shop with us.

Employee Excellence

We champion a work environment that adheres to ethical standards and fosters respect for employees and business partners as we work to uphold REI's purpose and build our co-op's long-term success. We work to attract highly talented and motivated employees who share our values and reflect the diversity of our communities. We create a work environment that inspires and fosters engagement, and that allows people to grow and develop while enjoying their work as they contribute to REI.

Model Financial Performer

Strong financial performance ensures the co-op's health and fulfills the expectations of our members and employees. To achieve this, we are committed to operational excellence in the way we run our business, and we will reinvest in REI to ensure the sustainable growth of our core business while capturing new opportunities. At the same time, we maintain our commitment to sharing our profits with our members, employees, communities and the natural world upon which our business depends.

Environment and Social Responsibility

REI operates its business in an ethical and sustainable way. We recognize our responsibilities and our opportunity to model a new standard for business today through thoughtful stewardship of the natural world, respectful treatment of the people whose lives we touch and giving back generously of our resources and time. Through our operations, we are committed to having a positive impact on our communities and the planet.



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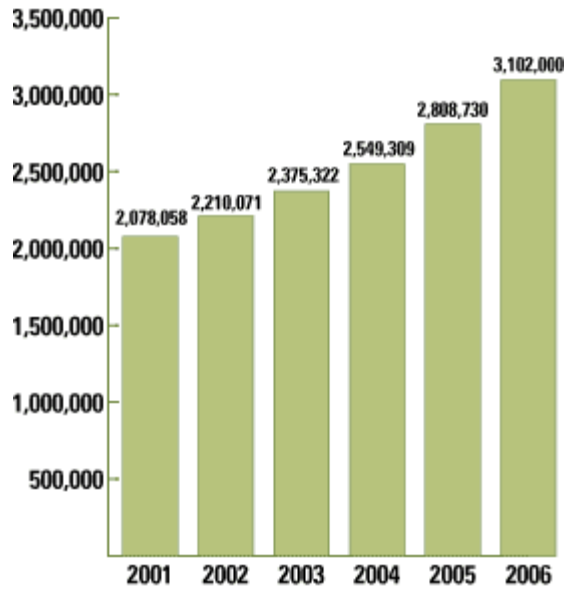
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QUICK FACTS ABOUT REI

- REI brand gear and apparel equaled 23% of REI's total merchandise
- More than \$58 million in dividends were distributed to 3.1 active members in 2007, based on their 2006 eligible purchases.
- Our nearly 9,000 employees help us operate 89 stores in 25 states, our direct sales channel and adventure travel company, REI Adventures.

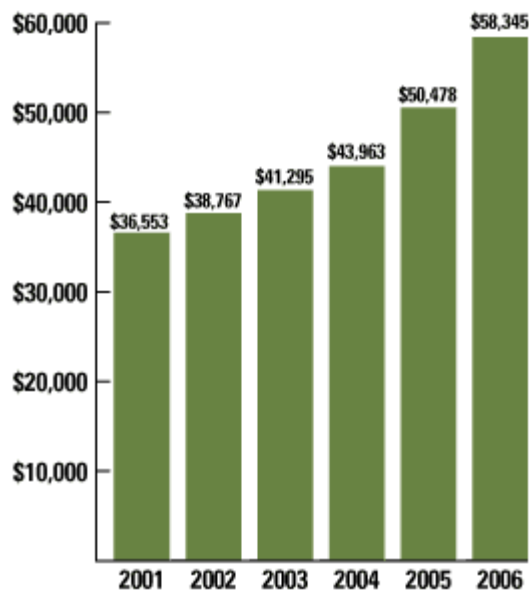
REI ACTIVE MEMBERS



*According to REI's bylaws, an active member is having joined the co-op or spent at least \$10 during the year.

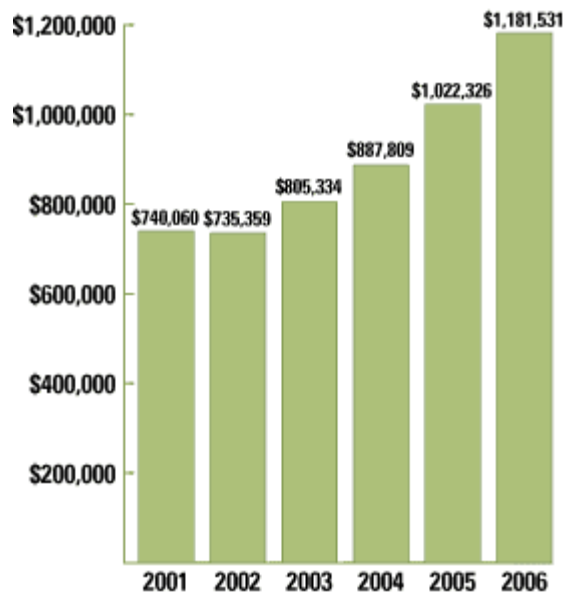
REI MEMBER DIVIDEND

(IN MILLIONS)



REI SALES

(IN MILLIONS)



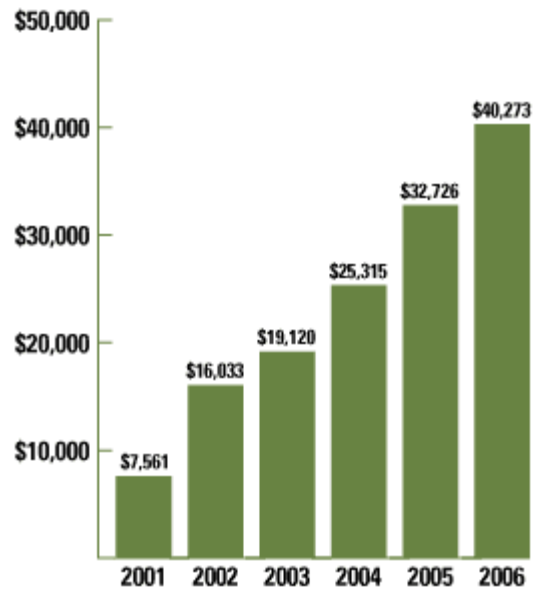
REI OPERATING INCOME

(IN MILLIONS)



REI NET INCOME

(IN MILLIONS)



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BOARD OF DIRECTORS

REI's direction and operations are overseen by an 11-member board of directors-10 of whom are elected by members. REI's president and chief executive officer, Sally Jewell, serves as the eleventh member by virtue of her position. With the exception of the CEO, all REI's board members are considered "outside" or independent directors. All elected board members are REI members, and while the CEO also serves as board president, the board chair is selected from the elected directors.

REI's directors are members who combine a passion for the outdoors with exceptional business skills. Elected board members serve three-year terms, which end on the day of REI's annual meeting. We strive for REI's board to be representative of the diversity of our membership.

REI's board is legally responsible by statute, and its Articles of Incorporation and Bylaws, for the overall direction of the affairs and the performance of REI. The board carries out this legal responsibility by establishing broad policy and by monitoring management within the framework of these broad policy guidelines

Listed below is REI's 2006 board, the occupations of the directors, and the years in which their terms end.

- Doug Walker, Seattle, Wash.: Founder and former CEO, software company, REI board chair (2008)
- Anne Farrell, Seattle, Wash.: Former president, philanthropic foundation, REI board vice chair (2007)
- Bill Britt, Anchorage, Alaska: Health, environment and safety manager, energy resource and development company (2007)
- Ivar Chhina, Burlingame, Calif.: President, CEO and chairman, dental services company (2009)
- Joanne Harrell, Seattle, Wash.: General manager, worldwide software company(2009)
- Charles Katz, Jr., Palo Alto, Calif.: Manager, family investment business, charitable foundation (2009)
- Tom Harville, Edmonds, Wash.: Former retail chairman and CEO, community volunteer (2007)
- Angel Rodriguez, Joseph, Ore.: Semi-retired and enjoying the outdoors (2007)
- Cheryl Scott, Seattle, Wash.: COO, global foundation (2008)
- Michael Smith, Seattle, Wash.: President and CEO, ecommerce company (2008)
- Sally Jewell, Seattle, Wash.: REI President and CEO (board position by virtue of position)



For additional information about REI's Board, including bylaws, governance, committees, and meeting summaries, please visit <http://www.rei.com/aboutrei/bod.html>. The section is updated regularly.

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IN BEING PART OF THE SOLUTION

Volunteer projects to restore streams,
plant trees and build trails. Responsible
business choices to use resources wisely.

We're building a solid foundation
but don't have all the answers. That's
where you come in. With the help of our
members and employees, we can team
together to protect and enhance our
communities and natural world.

Read about our progress—and learn how
you can join us—in REI's 2006 stewardship
report at www.rei.com/stewardship.

YOU CAN JOIN US. SMALL STEPS. BIG CHANGE.

As a co-op, we share the financial success
of our business with members, employees
and communities, and we make a conscious
choice to be a responsible company. Our
efforts help ensure that future generations
can enjoy the outdoors. We invite you to
join us in our commitment to stewardship.

Get Connected

Contact your local REI store to learn about
stewardship events in your community by
visiting www.rei.com/stores. You can also
find meaningful volunteer opportunities
with nonprofits that match your interests
at www.rei.com/volunteer.

Be Part of Our Team

We inspire, educate and outfit our members
and customers for a lifetime of outdoor
adventures. To learn more about joining
us at REI, please visit www.rei.com/jobs.

Read Our Report

We invite you to learn more about our stew-
ardship progress and the organizations we are
working with at www.rei.com/stewardship.



REI STEWARDSHIP

HIGHLIGHTS OF OUR ENVIRONMENTAL AND SOCIAL COMMITMENTS



JOIN US

At REI, our passion for the outdoors runs
deep. Every year, we inspire millions of
people to get outside to hike, climb, cycle,
camp, paddle and ski. It's only natural
that we take good care of the places
we love.

Our caring takes many forms. Interactive
presentations that teach outdoor ethics to
kids. Millions of dollars in grants in support
of conservation and outdoor recreation.

est. 1938

WE'RE COMMITTED TO MAKING A DIFFERENCE. TODAY AND TOMORROW. GLOBALLY AND LOCALLY.

ACTIVE STEWARDSHIP

Giving Back to Our Communities

Since 1976, REI has donated more than \$20 million to conservation and outdoor-recreation nonprofits and causes. Our grants efforts focus on environmental stewardship and youth programs in our communities, regions and at the national level. In celebration of our annual sales topping \$1 billion in 2006, we created a special \$1 million grants program to enhance 100 community parks across the country.

\$4 million
to volunteerism,
recreation and youth
programs in 2006

Inspiring Active Involvement

We actively encourage our employees to volunteer in their communities—from store-organized service projects to individual efforts with nonprofits they are passionate about. We also invite our members and customers to share in our commitment to caring

900,000
volunteer hours
in 2006 through REI-sponsored
projects and programs

for the open spaces and the public lands we all enjoy. In 2006, REI recruited and inspired nearly 24,000 volunteers who repaired trails, cleaned parks and streams, and planted trees. We also launched a new Web page, www.rei.com/volunteer, which matches customers' interests with volunteer opportunities nationwide.

Reaching Out to the Next Generation

Today's youth are tomorrow's outdoor stewards. To encourage more children to recreate outside and respect our natural lands, REI focuses on educational outreach programs and grants that provide opportunities for outdoor fun and mentorship. Together with our partner, Leave No Trace, we use a unique program called Promoting Environmental Awareness in Kids, or PEAK, to educate children about responsible outdoor recreation.



126,864 kids learned
Leave No Trace ethics

SUSTAINING THE NATURAL WORLD

Stemming Climate Change

In 2006, we conducted our first greenhouse gas emissions inventory. Because electricity use represented nearly 25% of our total emissions, we implemented a three-tiered reduction strategy—energy efficiency, green power purchases and carbon offset investments. For example, we purchased 11 million kilowatt



hours of green power, a step that was recognized by the Environmental Protection Agency's Green Power Partnership.

20 stores are now powered by
renewable energy

Building "Green" for Reduced Impact

"Green" building optimizes energy efficiencies and reduces a structure's environmental impacts. The resulting buildings have lower operating costs and are more comfortable and healthier to be in. In 2006, our new Pittsburgh store received the U.S. Green Building Council's LEED-CI Silver® certification—a leading green building standard. Today, we are working on the next generation of REI green building. Through a prototype store we will test design and material innovations.



Two REI stores have
LEED-CI certification



Making Responsible Paper Choices

We are committed to the responsible use of paper and paper products, and source paper from well-managed forests and work with high quality mills. We are working to track the origin of all the paper we purchase—from harvest to use. In 2006, we decreased our use of virgin fiber through operational efficiencies and increased use of recycled content. For example, post-consumer recycled content



in our shopping bags increased to 80%. We continue to work to ensure fiber comes from acceptable sources, and endorse the Forest Stewardship Council as our standard for sustainable forest practices.

"Greener" shopping bags
save about **100 tons** of
virgin wood fiber

Managing Waste

REI has long been an active recycler, but we seek to significantly reduce our waste to landfill contributions. We are committed to making base recycling available in every REI store. We are also working to make the process more efficient and less costly.



Designing Products Responsibly

We are committed to inspiring technical innovation and creative design aimed at reducing our environmental impacts. Initial steps include using more sustainable materials, such as organic cotton, hemp and recycled materials. We are also working to develop clearer standards and goals for evaluating the life cycle of REI-brand products and working with suppliers on innovation.



We introduced socks
made from corn-based
polymer fiber

PEOPLE

Creating an Exciting Workplace

REI has been honored every year for the past decade by FORTUNE magazine as one of the "100 Best Places to Work" in the country. Combined with the results of our own employee surveys, it's clear that the REI team is recognized for having a culture based on positive values and high engagement levels. REI continues to strengthen its workplace through initiatives such as a

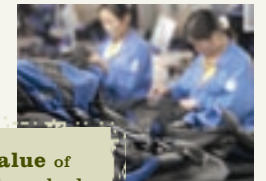


REI is ranked 27th
overall on FORTUNE's
"100 Best" list and
1st in work-life balance

new program that added health care benefits for part-time employees and the development of a comprehensive effort to create an environment that is inclusive and welcoming to a diverse customer and employee base.

Sourcing and Manufacturing Ethically

As a manufacturer for REI-brand gear, we have the responsibility of ensuring that our goods are made under appropriate conditions and with respect for the workers. Our sourcing standards clearly spell out our expectations to the factories with which we do business. We worked with leaders in the outdoor industry to develop and distribute a toolkit that provides a set of standards for product manufacturing and sourcing. A common set of standards helps our partners source to the recognized industry standard.



94% of the dollar value of
REI-brand products have had
3rd-party factory audits

Read our complete 2006
stewardship report online:
www.rei.com/stewardship



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CONSERVATION

COMMUNITY-BASED GRANTS & NATIONAL PARTNERSHIPS

Examples of local REI on-the-ground stewardship grants in 2006 include:

- Appalachian Trail Conservancy (Harpers Ferry, W. Va.) -Through financial and gear grants, this nonprofit helps keep 2,175 miles of footpath cleared of invasive vegetation and caring for 265 shelters from Massachusetts to Florida. REI's support assisted in outreach efforts to recruit new volunteers on college campuses.
- Pittsburgh Parks Conservancy (Pittsburgh, Pa.) - The Conservancy's Urban EcoSteward program educates and enlists volunteers to maintain sections of urban park land by removing invasive species, planting native flora, stabilizing soil erosion and cleaning litter. REI's grant funded outreach materials, plants and their volunteer program.

Nationally, REI partners with large and influential nonprofits that coordinate stewardship projects around national events such as American Hiking Society's National Trails Day, Adopt-a-Crag through the Access Fund, and National Public Lands Day.

An example of a nationally-funded partnership is REI's support of the International Mountain Bicycling Association (IMBA). REI has partnered with the association to promote volunteerism in the mountain biking community. Our funds support the development of co-branded print and online resources for use by IMBA's state-level affiliations. The long-term goal of the partnership is to record 5,000 volunteer days in 2007 and 10,000 volunteer days in the year 2010.



ACTIVE STEWARDSHIP

Conservation

- Stewardship— Celebrating and Promoting Volunteerism
- Community-Based Stewardship Grants & National Partnerships
- Promoting Stewardship
- \$1 Million Parks Grant
- Restoring Mt. Rainier National Park
- Advocating for the Outdoors
- Inspiring Active and Responsible Recreation
- REI Outdoor School
- Engaging Youth
- REI Kids Passport to Adventure
- REI's Gear Bank Program
- Promoting Environmental Awareness in Kids (PEAK)

[REI's Comprehensive Giving Approach](#)