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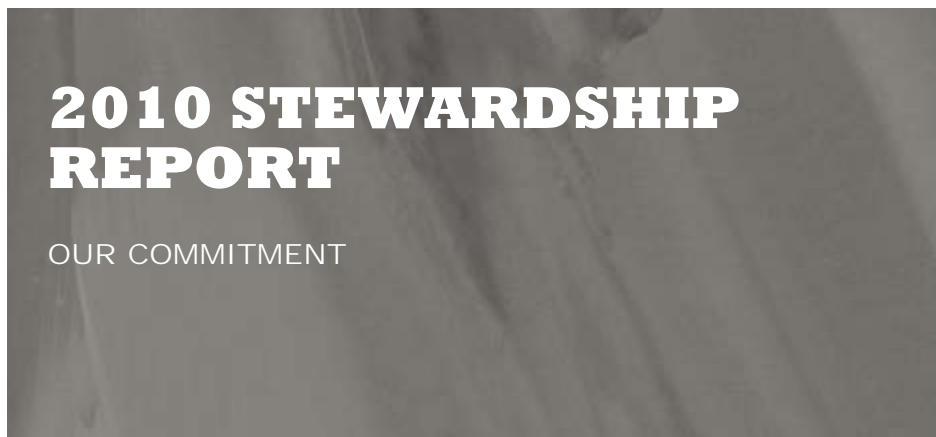
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Running our company in a manner that is socially and environmentally responsible is core to REI's purpose – we want to ensure that the next generation has a connection to the natural spaces we all enjoy today.

Our work involves employees and members, and extends into the larger community through partnerships with nonprofits and collaboration with our peers in the outdoor industry. We're also using our business to find innovative solutions to some of society's most pressing challenges.

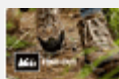
We invite you to read our annual stewardship report, which outlines the co-op's successes and challenges during the 2010 calendar year. The report is structured into the three sections – [Community](#); [Sustainable Operations](#); and [Workplace](#). A [table of contents](#) is also provided for quick reference.

Comments

We welcome your thoughts on our 2010 stewardship report via email at stewardship@rei.com. Your feedback supports our ongoing goal of providing relevant information that is important to our members, customers, partners, employees and others.

REI's net carbon impact of 7.3 percent was less than our company growth of 14 percent (by sales)

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2010 STEWARDSHIP REPORT

OUR COMMITMENT

Letter from Sally Jewell, president and CEO

May 2011

Since 2006, REI has been reporting our stewardship commitment and results to our members, customers, employees and the community. We've shared our successes and explained our challenges, intent on demonstrating our authenticity and transparency.

The last five years have given us the time to bring greater rigor to our reporting as we find more meaningful ways to operate our business in a sustainable, socially responsible manner. In doing so, we've learned that the most significant progress can best be made when the metrics we use to measure our environmental and social key performance indicators (KPIs) are as much a part of our business planning and decision making as our financial and business measures.

To that end, I'm pleased to tell you that in 2011 we are launching a series of metrics designed to monitor and report our work in: reducing the amount of waste we send to landfills; greenhouse gas emissions; and energy use. We are also beginning to assess the impact of our products by piloting the Outdoor Industry Association Eco Index.

We're excited and humbled by the admittedly challenging road we've set for ourselves. However, we know we are already bringing greater focus and attention on where we're going, and we welcome you to join us on the journey.

I encourage you to take a look at our results for 2010. You will see positive progress: we reduced the absolute amount of energy we use despite opening four new stores and growing our business; we grew the amount of FSC-certified paper we use to 58.4 percent of our total paper footprint – including our cash register receipt paper; we facilitated 2.2 million volunteer hours and we provided \$3.7 million to more than 330 conservation and recreation nonprofits.

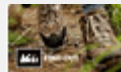
Thank you for your interest in REI and our stewardship. I invite you to join us – help us care for our public lands at a service project in your community, share your love of the outdoors with a young person and get the most out of your outdoor gear by using it on an adventure! In the meantime, I hope to see you on the trail.

Warmly,

Sally Jewell, REI president and CEO



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2010 STEWARDSHIP REPORT

OUR COMMITMENT

Defining Stewardship

REI's core purpose is to inspire, educate and outfit for a lifetime of outdoor adventure and stewardship. At the co-op, being good stewards is reflected in how we care for the world in which we play, work and live, and how we connect people to nature. Specifically, our efforts are designed to:

- Facilitate the active conservation of nature
- Inspire the responsible use and enjoyment of the outdoors
- Enhance the natural world and our communities through responsible business practices
- Foster opportunities to increase participation levels in outdoor recreation, with a focus on young people
- Maintain REI as an employer of choice, where employees are highly engaged in the vision of the company and are reflective of the diversity of our communities where we have a presence

Why We Report

REI publishes an online stewardship report to be transparent in our social and environmental efforts and hold ourselves accountable to our members, customers, communities and employees.

REI's fifth stewardship report covers the co-op's activities and performance related to these areas during the 2010 calendar year. The performance metrics and data contained within this online report include our operations and facilities (headquarters, distribution centers, retail locations and some aspects of supply chain manufacturing).

The 2010 report provides an update on our progress toward our stated goals, milestones achieved and a discussion of our stewardship priorities.

This report is an important part of our continual work to implement our initiatives and programs, apply our learnings, measure against our goals, and share our progress and challenges with REI's stakeholders.

Report Structure

REI's 2010 stewardship report is organized into the three content sections – [Community](#) – philanthropic efforts and nonprofit partnerships centered on conservation, outdoor recreation, and advocacy; [Sustainable Operations](#) – initiatives and efforts to reduce our overall impact on the planet; and [Workplace](#) – the co-op's workplace and fair labor compliance with vendor factory partners. For additional details on the content of each section, visit the report's [table of contents](#).

Materiality

To determine the most relevant subjects to include in REI's 2010 stewardship report, we built on the foundation we established in our first four reports. The scope of our reporting is for calendar year 2010, and was informed by internal and external stakeholders: employees, leadership, REI's board of directors, members and customers, local community constituents, nonprofit partners and advocacy groups. REI's board of directors provides broad input into our overall stewardship goals, metrics and measurement.

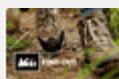
REI's business objectives and long-term strategic plans also served as a basis for determining relevancy, as did co-op policies, programs and initiatives. While the process for determining relevancy was primarily a cross-functional internal effort, we consulted with external experts to help establish REI's priorities for reporting on our corporate responsibility and stewardship.

All past REI stewardship reports are archived and maintained with open access for future reference, and complement additional information presented on [REI.com/stewardship](#).

Comments

We welcome your thoughts on our 2010 stewardship report through the provided survey or via email at stewardship@rei.com. Your feedback supports our ongoing goal of providing relevant information that is important to our members, customers, partners, employees and others.

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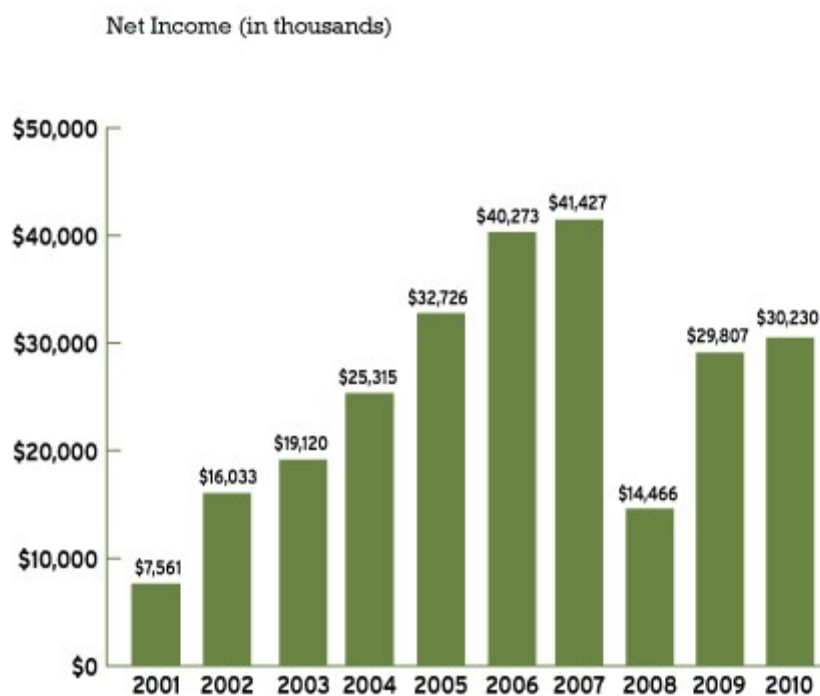
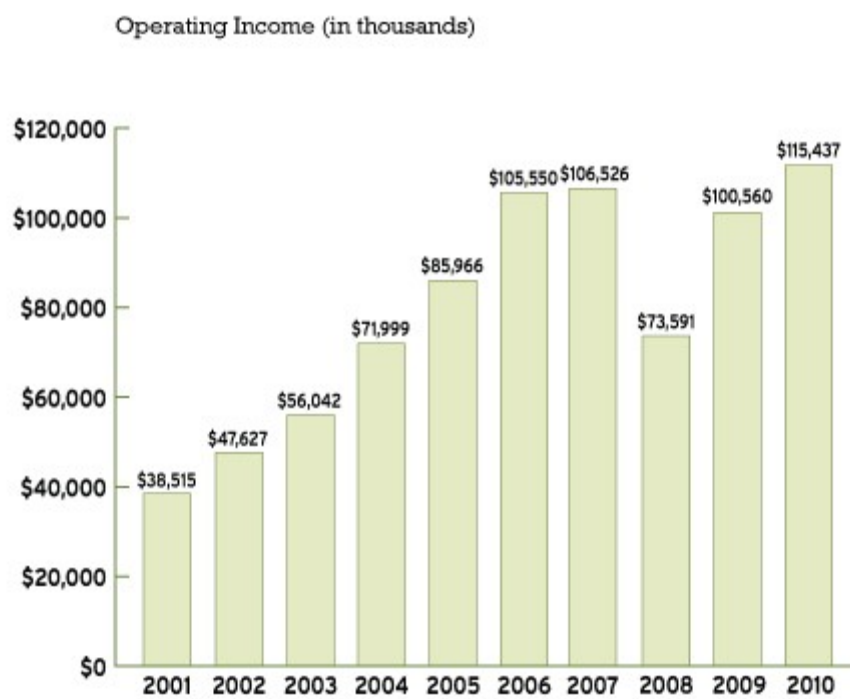
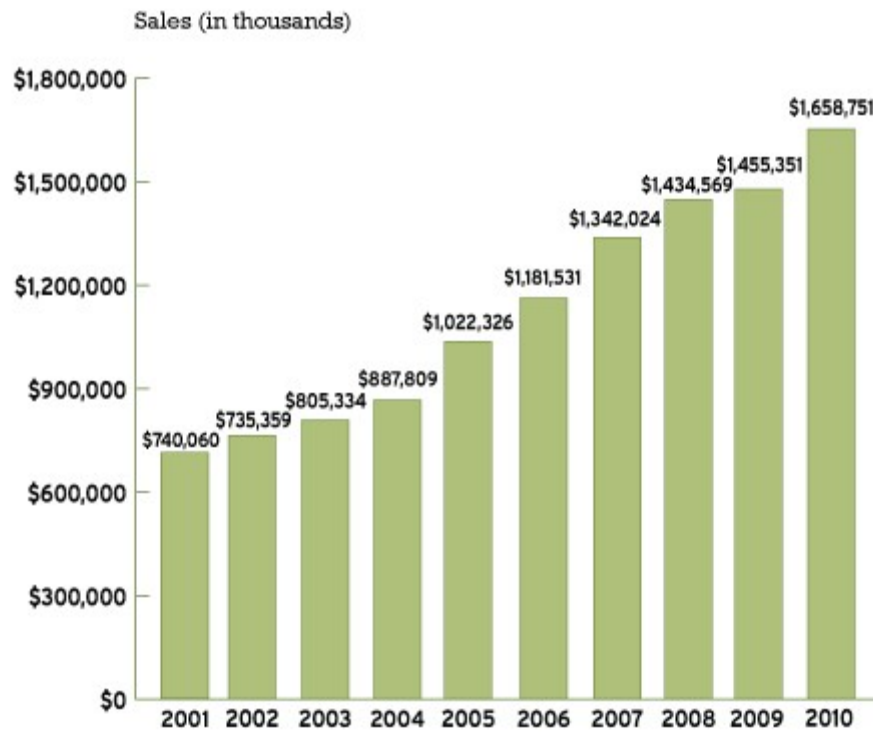


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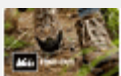


* According to REI's bylaws, an active member is someone who joined the co-op or an existing member that spent at least \$10 during the year.

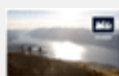




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REI in the Community

REI is committed to bringing tangible, lasting contributions to the communities where we live, work and play.

We collaborate with local nonprofit partners and offer targeted outreach programs to engage and educate our neighbors in the benefits of healthy, active outdoor lifestyles. This work also helps us advance our goals to protect and conserve natural spaces while helping the youth of today become the next generation of outdoor stewards. Our goal is to inspire our employees, members, and customers to join us in volunteer efforts to preserve and protect natural spaces.

This section of REI's stewardship report details our partnerships in the local communities we serve across the United States. We invite you to read about our [comprehensive giving approach](#), and how we mobilize our communities to [conserve natural spaces](#) and increase outdoor [recreation](#). You'll also find information on [The REI Foundation](#) and our [advocacy efforts to protect and enhance the great outdoors](#).

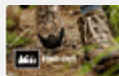
You can find examples and more information about how we work with our partners [here](#).

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We welcome your thoughts on our 2010 stewardship report through the following survey or via email at stewardship@rei.com. Your feedback supports our ongoing goal of providing relevant information that is important to our members, customers, partners, employees and others.

Our goal is to inspire our employees, members, and customers to join us in volunteer efforts to preserve and protect natural spaces.

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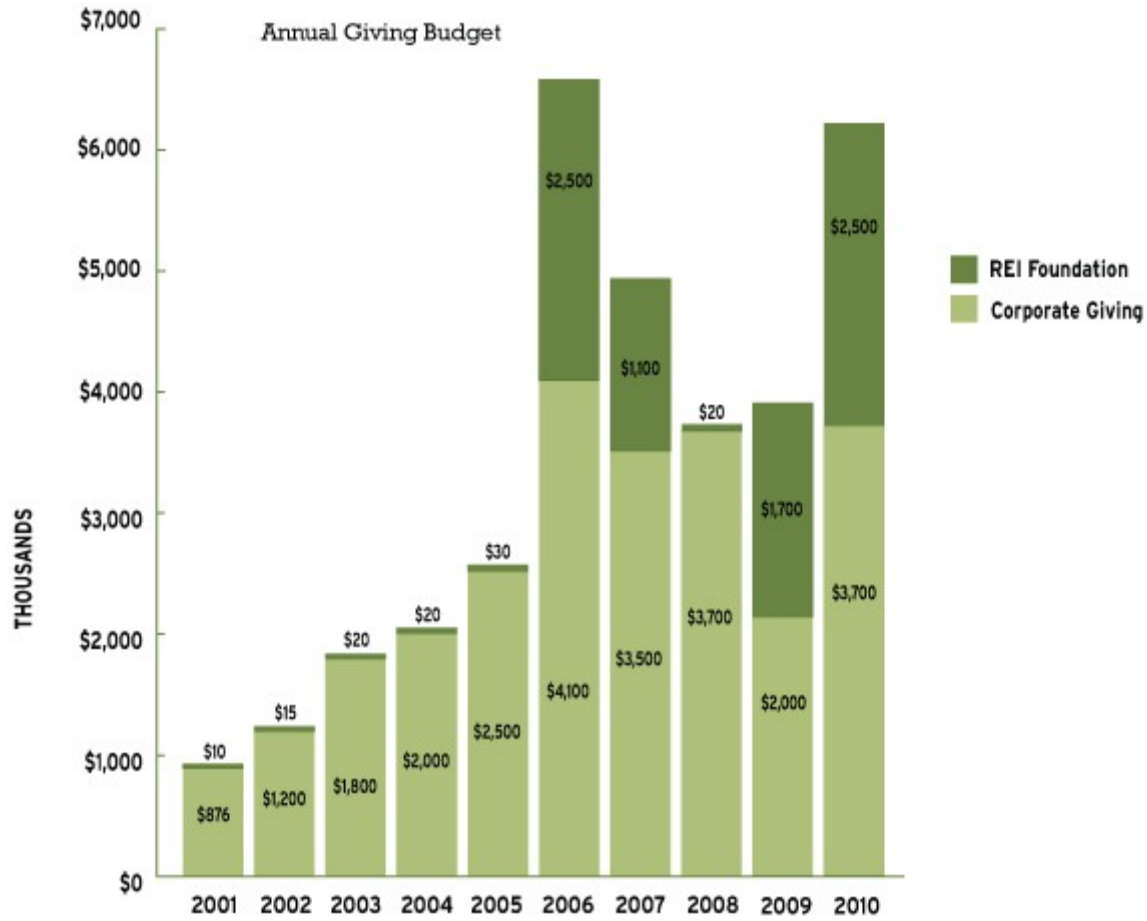
To help care for natural spaces where people recreate outdoors, REI dedicates 3 percent of the previous year's operating profit to its annual giving budget. Since 1976, we have given almost \$33 million to organizations aligned with our goals to protect our natural heritage and help people enjoy the benefits of outdoor recreation. In 2010, we donated \$3.7 million to more than 330 like-minded local and national groups. For a list of 2010 local and national grants made to conservation and recreation nonprofits, [click here](#).

The majority of REI's giving is focused on grassroots efforts that engage our members and customers in the communities we serve. Our grants program is predominantly guided by our retail employees' experience, expertise and insights in identifying and nominating local partner organizations. We believe this approach is the most authentic way to invest in communities as REI's nearly 10,000 employees have the strongest connections to the communities where they work, play and volunteer. Because of our community-based approach, we do not accept unsolicited requests and proposals.

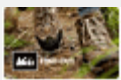
So that our giving efforts lead to positive, enduring change, we work closely with each grantee to leverage our resources and relationships. We consider each proposal in the context of our funding priorities and criteria that involve evaluation of impact, engagement and accountability. Grant proposals are also evaluated according to their impact on our goals to increase outdoor volunteer stewardship. This approach helps ensure that our grants are strategic, and create the greatest positive outcome.

The funds REI invested in nonprofit organizations in 2010 delivered the following outcomes:

- 23,454 miles of trail were maintained and 27,353 acres of land were restored – taking care of our natural places to provide the setting for great outdoor experiences
- 315,000 volunteers cared for natural places through the programs and events of nonprofits supported by REI's funding
- 2,280,481 volunteer hours were provided to working on trails, in parks and along waterways on conservation projects with REI-funded nonprofits



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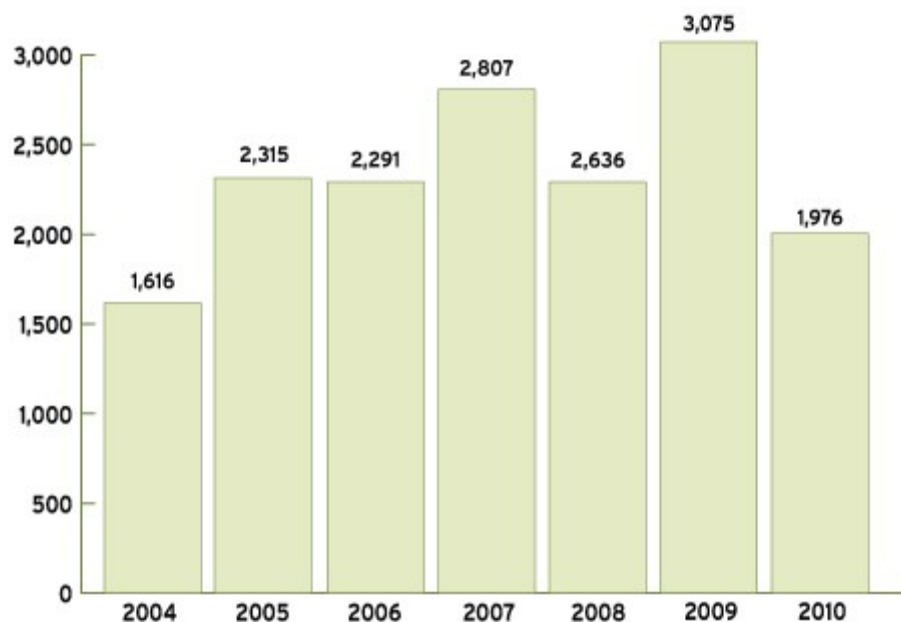


Recreation

Our core purpose is to help our members and customers have rich outdoor experiences while leading active, healthy lives. However, this has become more difficult in recent years, especially with our nation's youth. According to the [Outdoor Foundation](#), the amount of time American young people spend outdoors continues to decrease. But, reversing the trends can create benefits for children's health and well-being, according to research conducted by the [Children & Nature](#) Network.

As a result, many of REI's community efforts are focused on making it easy and fun to be in the outdoors. In 2010, our outreach efforts included hosting a variety of informative outdoor classes; continuing the successful Family Adventure Program (designed to help get children and their families into the outdoors); offering [REI's Outdoor School](#) in several markets; and facilitating equipment rentals through local Gear Banks, which allow people to gear up for an outdoor activity for the first time free of charge.

Gear Bank (Youth Participants)



RESULTS

Our efforts at the national and local levels are focused on getting children and their families active and connected with nature to foster a new generation of environmental stewards and outdoor enthusiasts. Some of the specific outcomes from our work in 2010 include the following:

- Connecting 307,805 youth and 56,204 adults to new outdoor recreational activities
- 1,976 youth were served by REI's Gear Bank free loan program, totaling 18,264 youth supported since the program's inception.
- 180,000 youth participated in REI's Family Adventure Program, by receiving an adventure journal through our local outreach efforts and accessing local trail and nature information at rei.com

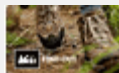
LOOKING AHEAD

REI continues to explore new and innovative strategies to use our diverse resources as a co-op to reverse the trend of decreased participation in outdoor activities, especially among young people. Despite having a wide variety of programs to address various community outdoor recreation needs, it is a logistical and resource challenge to adequately support and achieve success in all of the programs. For example, we continue to face challenges in supporting our Gear Bank gear loan program due to infrastructure limitations in our rental programs, which places strains on staffing and storage.

We recognize and acknowledge that philanthropic resources are not the co-op's best tool to address all of the barriers to participating in outdoor recreation. As a result, we have undertaken an initiative led by a member of REI's leadership team to evaluate changes and additions to our business that will increase participation in the outdoors.

The 2011 Family Adventure Program represents our most concentrated effort to date led by our stores and outreach teams to drive increased participation in outdoor recreation. We look forward to using this program to engage more people with the outdoors and learning from our efforts in 2011 to continue refining and improving our strategy for 2012.

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Conservation

We are committed to caring for the natural spaces that make possible our quality of life, community connections, health and wellness. If the generations to come are to enjoy these outdoor treasures, it is up to all of us to do our part to conserve them. In this section we provide information about REI's conservation efforts and programs. These include our store-based community involvement efforts and partnerships with organizations focused on stewardship.

RESULTS

REI provided more than 330 grants in 2010, totaling \$3.7 million, with a focus on outdoor recreation and volunteer conservation efforts. As in years past, REI helped mobilize individuals and families in active outdoor stewardship by supporting volunteer activities and events. Some highlights of our efforts in 2010 include:

- 315,000 volunteers cared for a variety of natural places through the programs and events of nonprofits supported by REI's funding
- 2,280,481 volunteer hours were provided to working on trails, in parks and along waterways on conservation projects on REI-funded nonprofits
- 541 volunteer conservation projects featuring 31,206 volunteers were hosted by REI
- 109,784 volunteer hours were spent on REI-hosted conservation projects
- 23,454 miles of trail were maintained and 27,353 acres of land were restored—taking care of our natural places to provide the setting for great outdoor experiences in the future

Greater Impact

The 2010 grants program demonstrated success by increasing outcomes in alignment with a new focus on volunteerism. As a result, the number of volunteer participants and number of hours that will be achieved by 2010 grantees increased by 139 percent and 165 percent respectively.

Most importantly, grantees will achieve their 2010 outcomes with a significantly lower cost-per-volunteer (-13 percent) and the lowest recorded cost-per-volunteer-hour (-22 percent).

Overall, our community-based grants dramatically increased the scale of REI-supported stewardship outcomes while simultaneously achieving unprecedented levels of efficiency in impact-per-grant dollar.

These accomplishments represent the power and potential of our giving program's increased concentration on the strengths of the co-op by engaging our employees, members, customers and nonprofit partners.

Enhanced Communications

The grants team leveraged social media in new ways to create value for community partners and increase awareness of REI stewardship efforts. For example, in partnership with colleagues throughout the co-op, we cultivated the REI blog as an opportunity to educate, inspire and increase engagement with community partners. Our nonprofit partners joined in by submitting "guest" posts for the blog with supporting video and photos of their programs.

REI also worked with Facebook on the launch of their new Places "check-in" feature whereby \$100,000 dollars was donated to community-based grantees based on the number of check-ins accumulated at REI retail stores.

Deepened Community Relationships:

In 2010, REI stores strengthened local relationships with outdoor-oriented nonprofits through the creation of the new Community Gear Donation program. Each REI store received budget dollars to purchase REI-brand gear and apparel for local nonprofit organizations to award at fundraisers, events and volunteer recognition celebrations. In the first year of this program, \$95,000 in REI products was donated to more than 500 nonprofit organizations.

Despite our success in 2010, we realize there are many significant challenges facing us. For example, we recognize that REI does not have the resources needed to address all of the conservation needs created in the face of reduced federal and state funding. In addition, REI is focused on actively partnering with organizations to increase the scale of their sustained impact in stewarding natural areas. We track progress on an annual basis, but recognize that this undertaking will require many years of work in order to achieve success on a broad scale.

Lastly, in many areas of the country, nonprofit organizations that focus on outdoor volunteerism are still working at a small scale with a limited number of volunteers. These organizations will require substantial time and effort to increase the scale and impact of their programs to address the urgent needs of the natural areas in which they work.

LOOKING AHEAD

By narrowing our focus in 2010, we achieved success in making a greater impact-per-grant-dollar than ever before. We accomplished this measure while implementing our program at a larger scale than we ever have before.

2011 will present a challenge in continuing to narrow our focus on outdoor stewardship and continuing to sustain our impact-per-dollar as our stores develop new partnerships in alignment with this focus.

We continue to see our role in increasing the capacity of our nonprofit and community partners as an especially important need to assist in the protection of natural spaces.

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The REI Foundation

The REI Foundation primarily focuses on getting more young people into nature, with an emphasis on youth and families of color. Through this work, The REI Foundation’s goal is to help inspire the next generation of outdoor enthusiasts and environmental stewards.

Historically, The Foundation has concentrated on grant making. However, The Foundation is evolving to become a funder, convener and thought leader in the movement to connect youth to the outdoors. To that end, in 2010 the co-op partnered with a contractor with philanthropy expertise to help guide this transition.

The REI Foundation researches and invites grant proposals connected to its mission; it does not accept unsolicited proposals.

The REI Foundation is funded primarily by REI donations. In 2010, the co-op’s performance allowed the company to make a year-end contribution of \$2.5 million, bringing its corpus to nearly \$9.5 million. The Foundation’s corpus has been built in the years since its founding in 1993. A very small number of donations have been accepted in recent years through outside contributions and by member donations of dividends.

RESULTS

In 2010, The REI Foundation’s support was directed to the following programs:

NatureBridge – \$50,000. The REI Foundation established the Mary Anderson Legacy Grant on December 7, 2009 in celebration of the 100th birthday of REI’s co-founder. The \$50,000 grant is awarded in support of efforts that actively engage young people in learning about nature through hands-on engagement and exploration of the outdoors. The grant is made in recognition of the contributions that Mary Anderson made in the lives of young people during her years as a teacher and through her life-long love of the outdoors. NatureBridge is the inaugural grant recipient for 2010.

The mission of NatureBridge is to inspire personal connections to the natural world and responsible actions to sustain it. Serving over 40,000 participants annually, NatureBridge is the largest nonprofit residential environmental education partner of the National Park Service. Since 1971, they have introduced almost one million students to national parks through field science education programs for schools and youth leadership programs. They have environmental education campuses in Yosemite National Park, Olympic National Park, Golden Gate National Recreation Area and Santa Monica Mountains National Recreation Area.

National Audubon Society – \$100,000. Engaging diverse communities in exploring the outdoors is at the core of the work of the National Audubon Society.

Focusing on three urban communities in which both Audubon and REI have a strong presence, this grant engages 10,000 youth and 500 adults. Each site will be selected through an application process from their national network of nature centers. Funding from REI will directly support projects that emphasize engaging culturally diverse youth and/or families in dynamic outdoor conservation and educational activities, providing urban youth with direct, meaningful opportunities to learn from and contribute to the natural world.

Success will be measured and based on program participation, interviews with partners, and interviews with staff, showing enhanced cultural competency and an understanding of how to work more effectively in communities of color. This work will be done with the help of an external evaluator.

The Foundation funded the following organizations in Atlanta, Georgia:

National Wildlife Federation – \$25,000. The mission of National Wildlife Federation (NWF) is to inspire Americans to protect wildlife for our children’s future. A critical component of NWF’s efforts in Atlanta involves working with youth to build a better understanding of the connections between communities and wildlife and to help them connect to the natural world in meaningful ways while developing the leadership skills necessary for personal environmental stewardship.

Support for NWF includes their Earth Tomorrow Program (including the 10th Annual Earth Tomorrow Summer Institute) and their youth and family-focused outdoor recreation and hands-on environmental steward activities leading up to and following the institute. NWF will advance new and established partnerships with organizations including Keeping It Wild, the West Atlanta Watershed Alliance, the Georgia Conservancy, Park Pride, and the Friends of GA State Parks to expand its reach to over 700 youth of color and their families and over 150 adult volunteers.

East Atlanta Kids Club – \$15,850. The East Atlanta Kids Club’s Cycling and Triathlon program engages youth in year-round fitness activities, including running, biking and swimming, and competing in single- and multi-sport events. REI’s support will allow them to both continue and expand their cycling and triathlon training programs. In 2011, they plan to engage 60 youth in cycling and triathlon activities and also to engage 20 adults from the community.

BRAG Dream Team – \$10,000. After 16 years of working exclusively with middle school students to prepare them for the week-long Bicycle Ride Across Georgia (BRAG), the BRAG Dream Team will expand their reach and impact by offering year-round cycling experiences. A cohort of Dream Team coaches and alumni will provide guidance to 250 teenagers from the city of Atlanta.

Greening Youth Foundation Inc. – \$15,000. Greening Youth Foundation (GYF) coordinates and implements programs to reduce the environmental footprint of public schools and promotes wellness awareness by utilizing its 12-week hands-on C.L.E.A.N. curriculum, Eco-Force environmental club and school-wide recycling programs.

The Foundation provided support to the following San Diego-based organizations:

Ocean Discovery Institute – \$20,000. The Foundation’s funds will support the Ocean Leaders Initiative, a series of interconnected after-school and summer programs and support services for 100 urban and diverse middle school, high school, and

college age young people. This initiative offers a pathway to progress from secondary school through university to science and conservation careers, building students' knowledge of ocean science, developing their capacity for stewardship, and preparing them to be tomorrow's science and conservation leaders.

Outdoor Outreach – \$20,000. Since its founding in 1999, Outdoor Outreach has taken more than 5,000 young people on over 1,500 trips, including rock climbing, surfing, snowboarding, hiking, backpacking, mountain biking and marine science education trips, giving youth an opportunity to teach others, learn new skills and obtain relevant experience for the job market. REI's funds will support the paid internships of nine youth leaders serving as assistant instructors helping to run 250 trips for 700 youth. Each youth leader is a past program participant who has completed a year-long intensive training giving them the necessary skills to become a teacher, mentor and instructor on all Outdoor Outreach outings.

WILDCOAST – \$20,000. This organization works to protect and preserve coastal ecosystems and wildlife in California and Latin America. The goal of WILDCOAST's 2011 South Bay Environmental Stewardship Campaign is to build the capacity of south San Diego County residents to preserve and restore the Tijuana and Otay River Valleys in south San Diego County. Through presentations, tours, social media campaigns, trainings, environmental education, and stewardship opportunities, WILDCOAST will work to increase the knowledge, skills, and opportunities of local stakeholders to conserve two of south San Diego County's watersheds involving more than 1,000 volunteers in conservation and restoration efforts.

YMCA Camp Surf – \$20,000. This program received support for its Friends/Family Adventures in Nature (FAN) Clubs to accomplish two distinct goals in 2011. The first goal is to bring outdoor experiences to 4th-6th graders at after-school programs in the South Bay and Southeast region of San Diego County. Enrichment activities will involve 600 youth and focus on conservation, skill development, environmental stewardship, and human powered activities in the outdoors.

The second goal is to provide outdoor experiences for all students and their families that attend participating after-school programs. At least 13 weekend family events will take place monthly at YMCA Camp Surf and other sites in the greater San Diego region with a goal of at least 800 attendees. They will build on concepts taught at school sites and allow students to teach family members and other participants the skills they have learned.

American Red Cross – While focused on getting more young people into nature, The Foundation made two grants totaling \$40,000 to the American Red Cross Disaster Relief Fund to support recovery efforts in Haiti.

LOOKING AHEAD

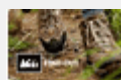
Early in 2011, The REI Foundation awarded \$275,000 in grants.

The first grant for \$125,000 was given to The Futuro Media Group in support of a special segment of the radio program, Latino USA, and is designed to highlight the connection between Latinos and the outdoors. These stories will be told in first-person accounts across a spectrum of individuals and points of view. These grants continue The Foundation's effort at considering a broad range of approaches in support of achieving its goals.

The second grant is for \$150,000 to the Outdoor Foundation in support of extending youth summits in five regions following the Outdoor Nation model that was introduced in New York City in 2010. The five summits will be held in New York, Atlanta, Minneapolis, Denver and San Francisco.

The Foundation will continue to expand its efforts as a funder, supporter and convener of activities that provide programs, awareness and increased public engagement in the outdoors. In 2010 and years' past, The REI Foundation provided assistance for disaster relief. However, these efforts will become part of REI's larger corporate giving program, beginning in 2011. This will allow The Foundation to keep its focus on helping more youth become involved with outdoor recreation and stewardship.

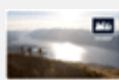
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2010 STEWARDSHIP REPORT

COMMUNITY

Advocacy for the Outdoors

REI believes that business can and should have a voice in public policy. This voice supports the business and the mission of the co-op on behalf of REI's members, both present and future.

In 2010, REI's efforts were focused primarily on issues related to recreational opportunities on public lands and actions were undertaken primarily at the federal level. REI pursued this strategy through a contract lobbying firm in Washington, D.C., in conjunction with the Outdoor Industry Association trade organization, directly with company staff and in partnership with other interested stakeholders.

The emphasis for 2010 was on President Obama's America's Great Outdoors Initiative (AGO); in support of funding of federal public lands and through engagement in miscellaneous rules and regulations. REI also supported trade import bills through efforts led by its industry association.

RESULTS

The bulk of REI's efforts in 2010 were focused on the AGO initiative launched by President Obama in April. The initiative was coordinated by the Department of Interior, Department of Agriculture and The Environmental Protection Agency (EPA) and was overseen by the White House Council on Environmental Quality (CEQ). The initiative's goal was to conduct public outreach in the development of a conservation and recreation agenda for the 21st century. REI's participation included the co-op's president and CEO, Sally Jewell, serving as a keynote speaker for the initiative's launch at the White House. Over the course of the spring and summer, REI backed outreach efforts in support of public listening sessions and also participated in multiple sessions in support of recreation, public land funding and the value of a program called the Land Water Conservation Fund (LWCF). Sessions also covered the engagement of youth in the outdoors and ensuring that in the future outdoor public land users are as diverse as American society.

The AGO report and accompanying supplemental Youth Report was to be complete by November 2010 but was delayed until February of 2011. The report (<http://americasgreatoutdoors.gov/>) provides numerous recommendations for funding, policy and partnership opportunities in the years ahead. At the invitation of President Obama, Sally Jewell participated in the report's rollout.

REI worked for passage of a fully funded LWCF both through direct communications and via our support of our trade association and The Conservation Alliance, an industry group focused on conservation efforts. The effort reached a new level of success with the passage of a funding bill in the House, but a Senate version did not pass before the session's end.

REI worked unsuccessfully on two industry tariff bills on footwear and performance jackets and pants. The bills sought to eliminate extraordinarily high tariffs on product categories without commercial scale domestic production, which creates high product costs without benefit to domestic industry. Neither bill advanced from their respective houses. The bills were known as the Affordable Footwear Act and the US OUTDOOR Act.

Other efforts that REI worked on but that failed to advance included support of a bill to create a national youth conservation corps and a bill to encourage the development of state strategies for engaging youth in the outdoors. REI executives also participated in a regional meeting hosted by the U.S. Forest Service to represent recreation users and recreation-based business as key stakeholders in the development of forest management plans. A final rule is expected in 2011.

REI along with the Sierra Club, YMCA of the USA, The National Wildlife Federation, Izaak Walton League, the Children and Nature Network, the Outdoor Foundation and the National Parks and Recreation Association, joined efforts through a coalition called the Outdoor Alliance for Kids (OAK) to seek ways to bring attention and change to the challenge of connecting today's young people to the outdoors and nature. The year was a formative one in which efforts were made to establish OAK and start work with agencies and decision makers to bring attention and action to the issue. This included working with the First Lady's office to bring an outdoor extension to her Let's Move campaign. It also included the support of the Moving Outdoors in Nature Act that encourages state strategies to connect youth to nature.

LOOKING AHEAD

REI remains committed to bringing recreation, conservation and business views to Washington, D.C. With the current polarized political mood in the Capital and the great concerns regarding the economy and governmental debt, REI needs to be thoughtful as to its effective engagement. The company views the AGO report and its recommendations as strong places to start. Additionally, the LWCF and its stateside program are seen as critical to funding close-to-home recreation needs and this program will continue to be a focus of our advocacy efforts.

Clearly, with the increasing number of issues facing land managers, attention is focusing on ensuring state and federal recreational opportunities and infrastructure are protected. The outdoor industry and companies such as REI can bring a strong voice and willingness to engage to these critical issues.

REI is working as part of OAK to build the organization's reach, effectiveness and agenda on behalf of engaging young people in the outdoors. REI is also engaging as needed to ensure recreation is considered key to land management rules and regulations. This includes providing our comments and being involved in broad issues as the Forest Service Planning Rule and more specific regulations such as the limitations placed on youth organizations and their ability to provide services and programs on forest service lands.

REI will continue to monitor and act on business and trade issues that affect the co-op and our ability to deliver on our mission and business success.

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Sustainable Operations

All businesses, regardless of its size and scope, undeniably impact the environment. REI's ongoing success is reliant on natural spaces for all to enjoy, which reinforces why stewardship is intentionally included in our core purpose.

We are focused on five strategies to help our company thrive while reducing our environmental footprint and improving the health of the natural world. They are:

- Reducing our [greenhouse gas emissions \(GHG\)](#)
- Finding sustainable solutions to our [paper usage](#)
- Reducing [waste and optimizing recycling](#)
- Building and operating [green buildings](#)
- Addressing the challenges of [product stewardship](#)

These areas contain many interconnections – for example, packaging design as part of product stewardship influences the transportation of goods, the waste we generate, and the amount and type of paper or plastic that is used. They also represent REI's greatest opportunities to collaborate with others to create broader positive impacts. In pursuit of this, we collaborate with our industry partners, the communities we serve, and nonprofit organizations in many areas of our business.

In 2010, REI's leadership adopted a comprehensive set of environmental lenses, including an immediate 2011 focus on energy use, greenhouse gasses, and waste-to-landfill. The full framework closely matches the set of environmental lenses adopted by the Outdoor Industry Association in the Eco Index. As part of this work, we reconfirmed our environmental "north star" aspirations, clarified organizational governance and accountability, and created a process to set five-year goals and annual environmental budgets that tie directly into our strategic and financial planning.

In 2010, REI's leadership adopted a comprehensive set of environmental lenses, including an immediate 2011 focus on energy use, greenhouse gasses, and waste-to-landfill.

KPIs/Metrics



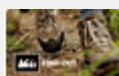
Formal metrics for REI include energy use, greenhouse gas emissions, and waste. Future metrics, which will be adopted over the next few years, will include water, toxics, and land use and biodiversity.

Our 2010 methodology for measuring our environmental impacts is based on best practices to assess each area of our environmental footprint.

Comments

We welcome your thoughts on our 2010 stewardship report through the following [survey](#) or via email at stewardship@rei.com. Your feedback supports our ongoing goal of providing relevant information that is important to our members, customers, partners, employees and others.

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Greenhouse Gas Emissions

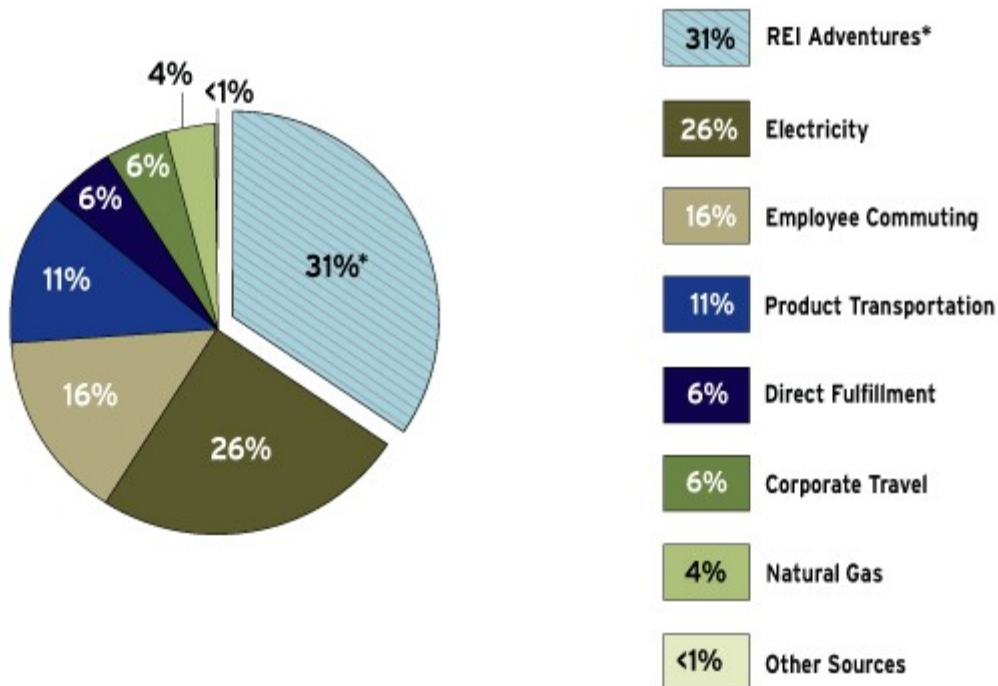
REI measures its greenhouse gas (GHG) emissions to minimize risks to our business and identify cost reduction opportunities. Our focus to reduce our emissions also aligns with our core purpose and vision to serve our customers 100 years from now and beyond.

Understanding REI's carbon footprint provides us insight that is sometimes counter to our business intuition, allowing our business divisions to use GHG emissions as a leading indicator to make informed decisions, including [climate-neutral travel](#) via REI Adventures, [employee commuting](#) and [corporate travel](#), [energy use](#), [product transportation](#), [direct fulfillment](#), and [miscellaneous emissions](#).

We use two terms to reference climate change at REI. "Greenhouse gas footprint" is the total amount of GHGs that REI is responsible for converted into the equivalent amount of carbon dioxide. Our "climate impact" is the net contribution REI has on climate change, after our [carbon offsets](#) are subtracted.

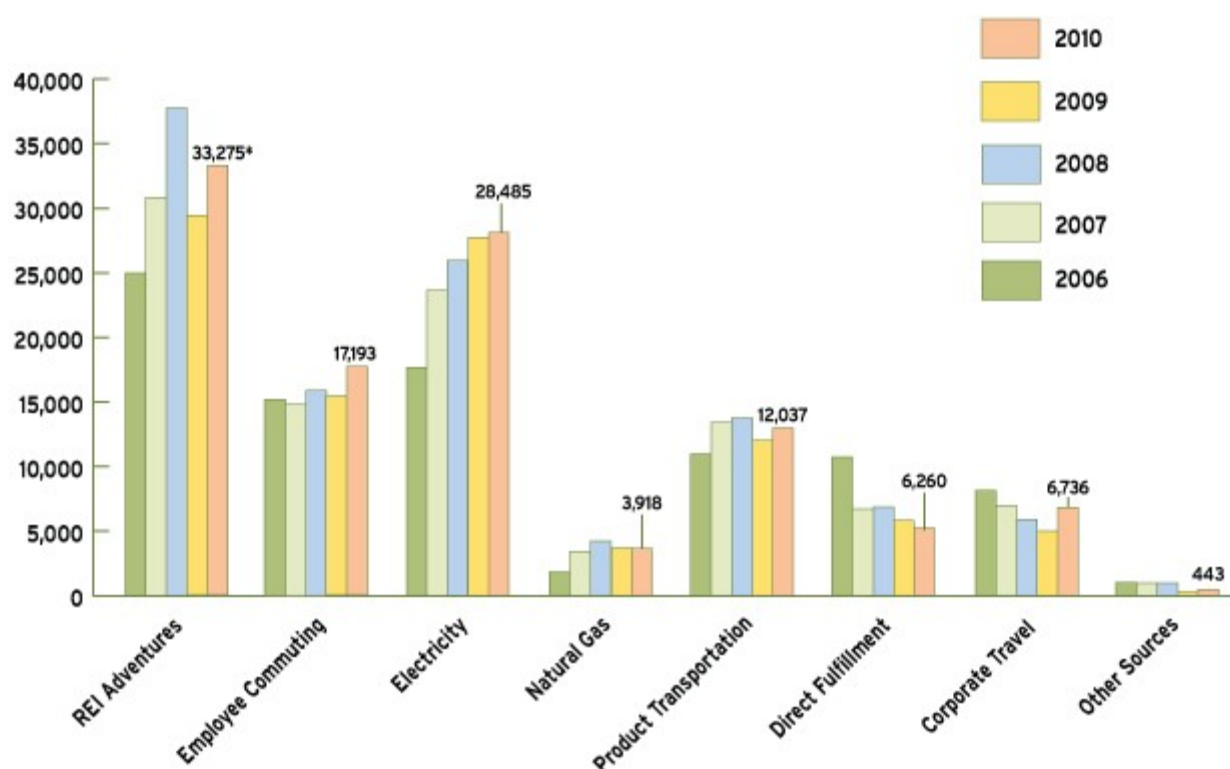
The details of how we measure our environmental impacts can be found in the methodology appendix.

REI's 2010 Greenhouse Gas Emissions



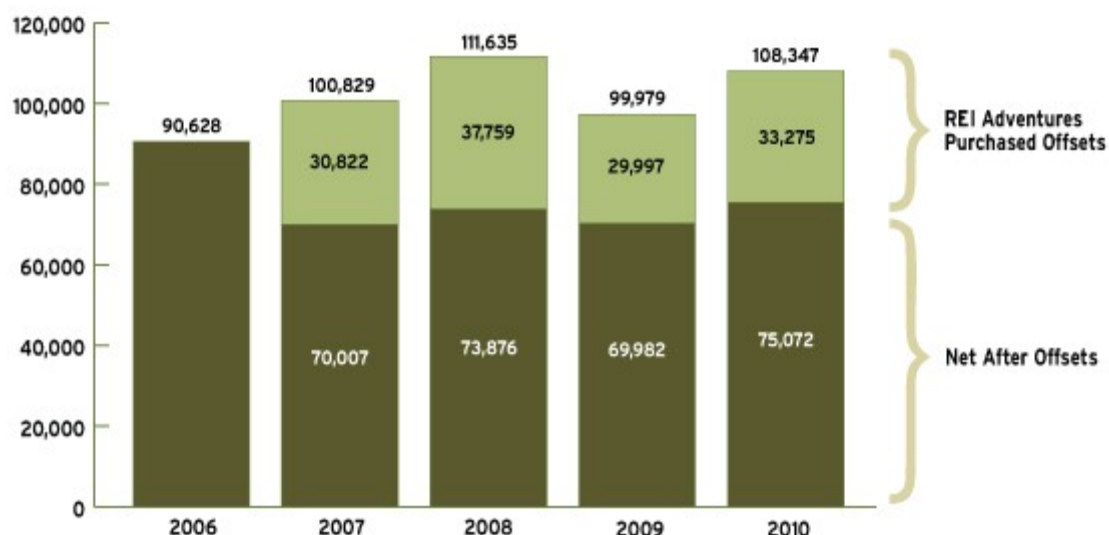
*Offset using Renewable Energy Credits from Bonneville Environmental Foundation.

Greenhouse Gas Emissions (Tons CO₂)



* Offset using Renewable Energy Credits from Bonneville Environmental Foundation.

Carbon Footprint (Tons CO₂)



RESULTS

In 2010, we increased our absolute climate impact by 7.3 percent (75,072 tons of GHG emissions, or CO₂e) from 2009 levels. While an overall increase for the year, this is less than our company growth of 14 percent (by sales), and we continue to pursue absolute reductions toward achieving our long-term goals.

The most significant contributors to our climate impact increase are [corporate travel](#), [employee commuting](#), and product transportation which are a direct result of the company growth, financial success and recovery from the difficult economy. Direct fulfillment and natural gas use experienced nominal reductions compared to 2009.

At the beginning of 2006 we had a total of 81 stores, whereas at the end of 2010 we had 114. This growth also contributed to a higher volume of goods transported to our distribution centers, our stores and our customers.

In comparing our carbon impact for 2010 and previous years, most of our GHG reductions have been accomplished by strategic business management, efficiency and investments.

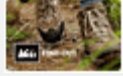
In February 2010, [Climate Counts](#), a nonprofit organization that evaluates companies on their voluntary actions to reverse climate change, named REI one of six charter members in their [Industry Innovators \(i2\)](#) program. Our recognition was based on our measurement, reduction efforts and commitment to report our progress.

LOOKING AHEAD

In 2011, REI will implement performance indicators for greenhouse emissions across our business, as we do with revenue generating activities. Progress against indicators will be analyzed throughout the year by company leadership through internal reporting and complement our annual planning and budgeting process. This requires us to forecast the greenhouse gas impacts of all of our new projects and initiatives and use that information in our business decisions. Our 2011 GHG impact budget is to remain at or below our absolute climate impact in 2010, or 75,072 tons of CO₂, regardless of our growth. We believe few companies in the retail industry are implementing similar accountability steps.

We continue to examine our largest single source of GHG emissions – air travel associated with REI Adventures – and our use of carbon offsets to address this source. REI Adventures will remain a contributor to our success, and our decision for future carbon offsetting will be based on whether this approach maximizes business value for the co-op while minimizing environmental impact.

As REI grows, corporate travel will remain required for operating our business. We expect to grow our retail footprint by a minimum of eight stores in 2011, and international travel to manufacturing vendors will continue to be important to our branded product teams.



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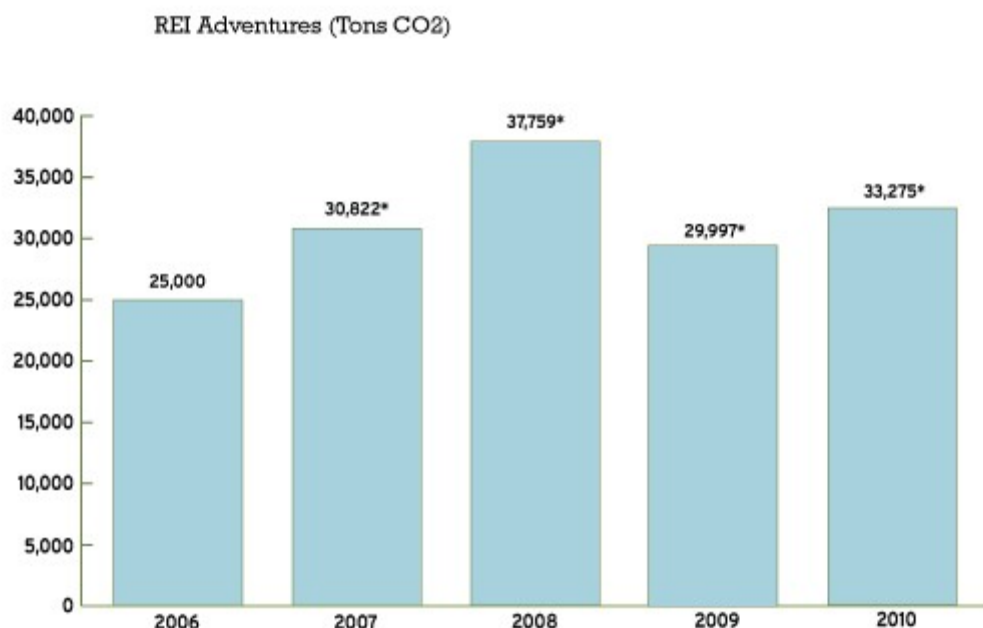
Climate-Neutral Travel

Customer travel associated with REI Adventures accounts for our largest single source of GHG emissions. Approximately 90 percent of the impact from an international trip comes from the air travel to a destination.

Because no solution exists to significantly reduce or eliminate the climate impact created by air travel, we partner with the Bonneville Environmental Foundation to offset our customers' travel on their behalf. Our customers' trips are considered carbon-neutral because of our action to offset their travel through the purchase of certified Green-e offsets. Bonneville Environmental Foundation is our partner because the organization's offering meets our standards for validation.

The co-op also offsets the ground transportation for all REI Outdoor School programs, available in most markets where we have a retail presence.

REI recognizes that offsets are not the preferred solution. We seek to reduce our core emissions wherever possible.



*Offset using Renewable Energy Credits from Bonneville Environmental Foundation.

RESULTS

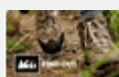
With the recovery of the U.S. economy, active travelers expressed an interest to return to international travel and therefore our REI Adventures business also grew. This contributed to a 10.9 percent increase in the tons of CO2 that was offset through our REI Adventures business.

LOOKING AHEAD

REI Adventures will remain a service offering to help our members and outdoor enthusiasts experience the wonders of nature. The programming also reinforces the co-op's purpose to educate and inspire others for a lifetime of loving the outdoors. Because our adventure travel offerings will remain our largest GHG contributor, we continue to assess whether offsetting is the right strategy as we approach a solution for 2011 and beyond.

As our original four-year commitment with Bonneville Environmental Foundation has ended, we are evaluating our options for accounting for the impact of REI Adventures. We recognize the market for carbon offsets has changed dramatically during this time as well as public perception of environmental claims. These factors will be considered in a solution determined in 2011 as the co-op continues to take accountability for these emissions.

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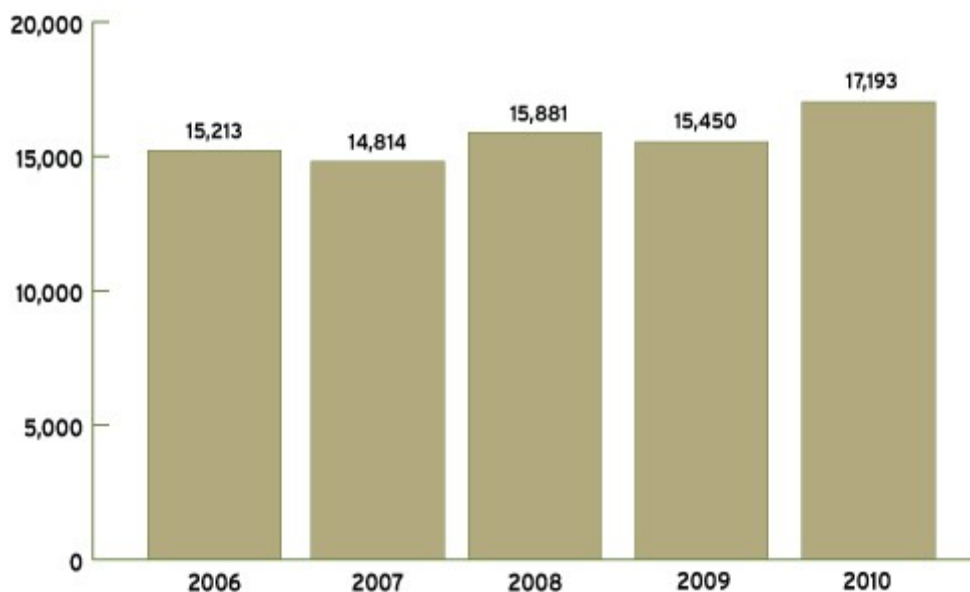


Employee Commuting

As a retailer, our employees commute to our stores, distribution centers and headquarters in order to serve our customers and support one another. Depending on an employee's scope of work, location and schedule, we have created programs that help diminish the environmental impacts of commuting, such as GHG emissions.

REI has long provided incentives to help our employees reduce the environmental impacts of commuting, such as a 50 percent transit subsidy. Employees that take advantage of our public transportation subsidy can pay for their share with pre-tax dollars from their regular compensation. Additionally, almost every REI location features employee bike storage and showers.

Employee Commuting (Tons CO2)



RESULTS

We experienced an 11.3 percent increase in employee commuting GHG impacts totaling 17,193 tons of CO2e, up from 15,450 tons in 2009. This growth is primarily contributed to hiring more employees. Through an annual commuting survey and monitoring vanpools to our headquarters, we learned of a slight decrease in employee alternative commuting behaviors. There are a number of factors contributing to this trend, among which include reasonably affordable gas prices.

As we research new locations for stores, alternative commuting infrastructure options are considered on behalf of employees that will be hired at those locations. Because many employees choose to bike instead of drive their single occupancy vehicles, bike racks are standard store features provided as a resource to our employees and to help decrease our climate impact.

REI's Customized Work Environment (CWE) program remains active at our headquarters, and many divisions encourage their employees to be active participants. This program includes options for telecommuting, flextime and a compressed work week for employees whose jobs allow for this level of flexibility.

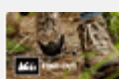
LOOKING AHEAD

We will continue to offer shared hybrid vehicles at our headquarters to serve as a resource to employees for their business and personal errands during the workday.

As gas prices have started to increase, we expect employees to remind themselves of the costs savings of alternative commuting. Our analysis shows that a \$1 increase in the cost of gas per gallon results in REI employees collectively spending \$2 million more annually on buying fuel to commute to work.

Across the company, we will continue to address barriers to alternative commuting at all locations. These barriers include education and support of infrastructure improvement projects.

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SUSTAINABLE OPERATIONS

Energy Use

Energy use remains one of the largest contributors to REI's climate impact. Comprehensive data analysis across our facilities provides us the best insight to better understand our usage and identify financial opportunities and strategic investment opportunities. The energy choices we make today will have business impacts for decades to come.

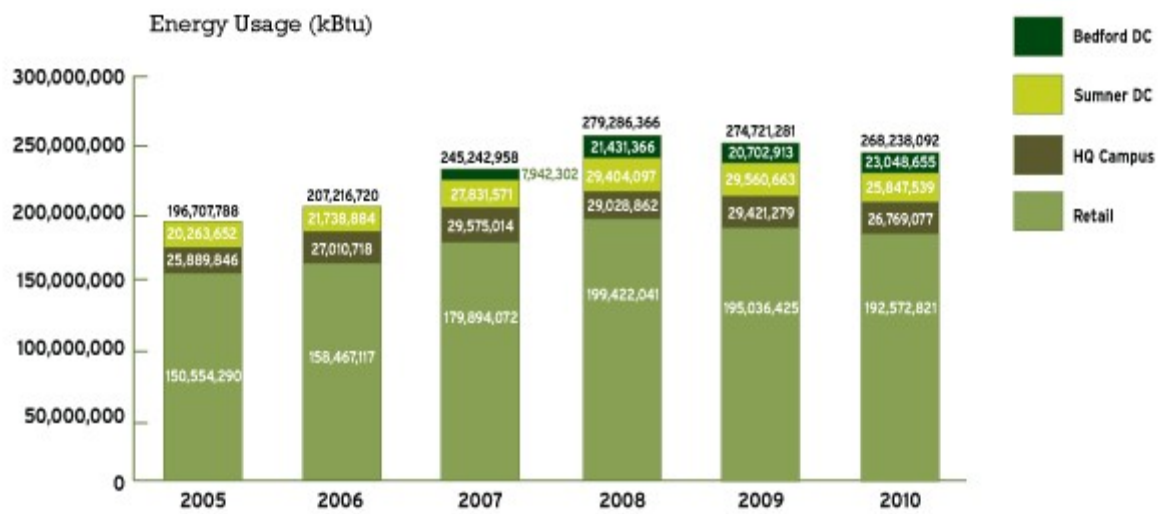
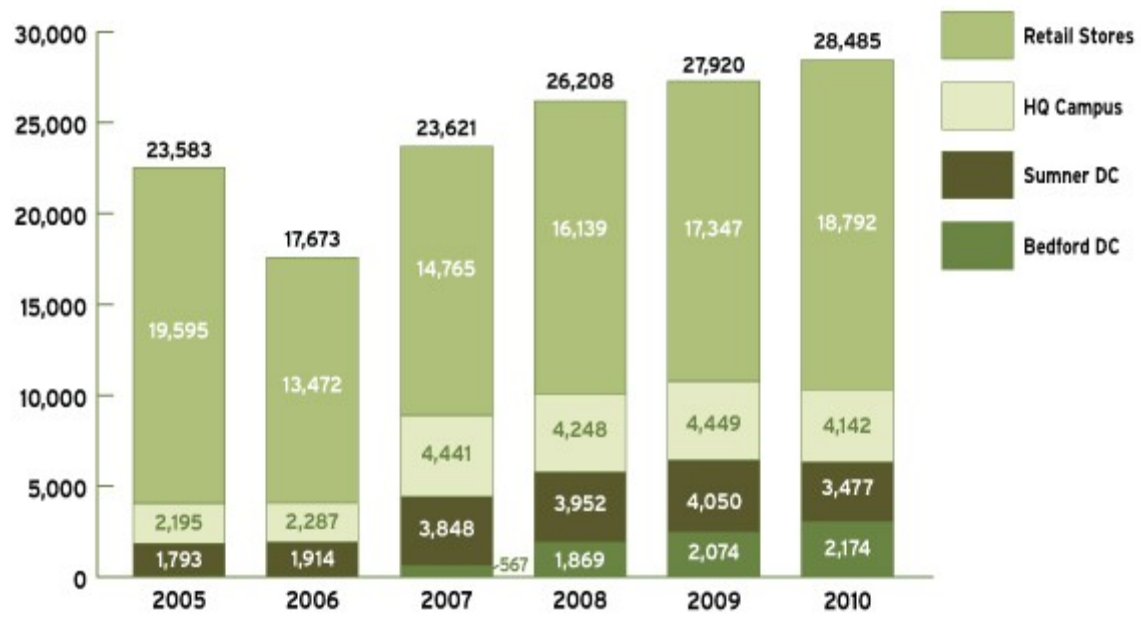


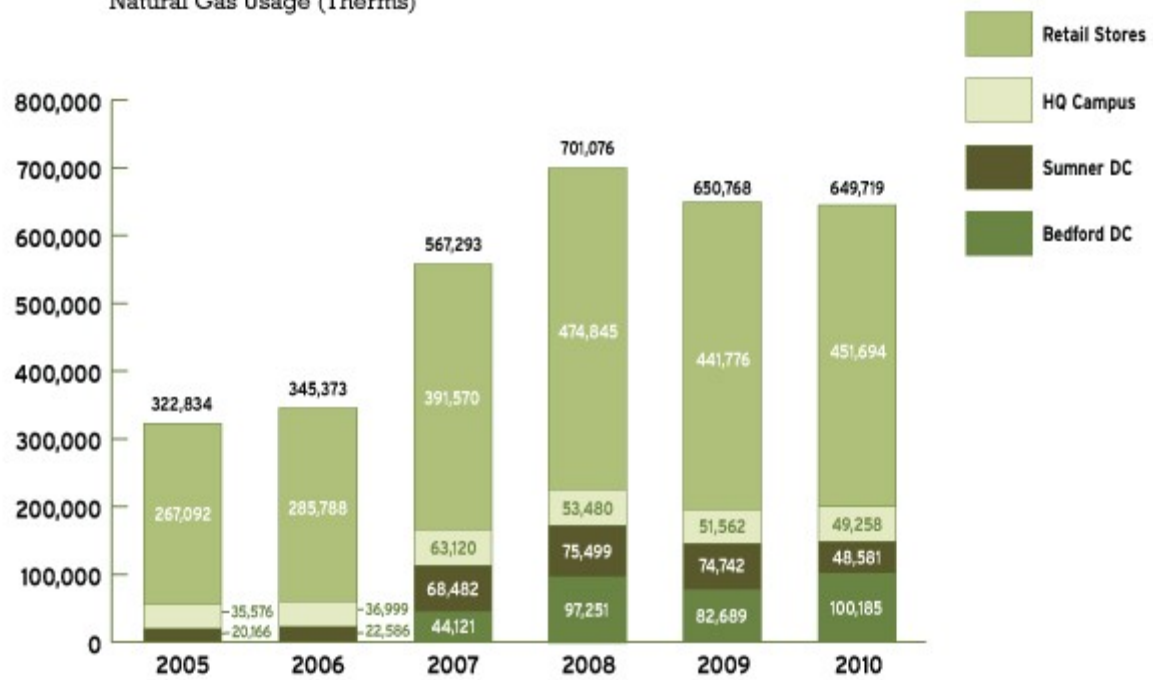
Chart combines natural gas and electricity into a common unit to illustrate total energy usage.



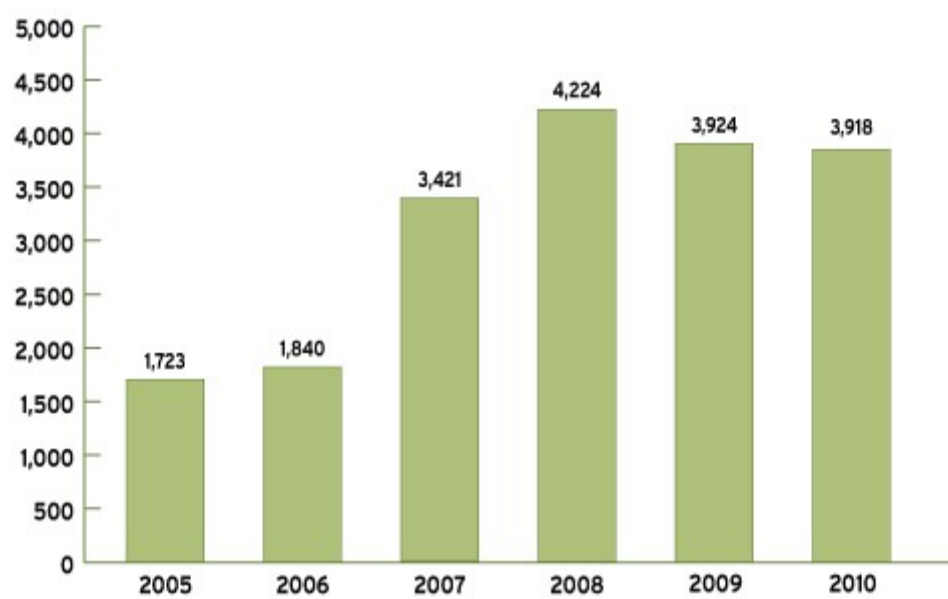
Electricity Impacts (Tons CO2)



Natural Gas Usage (Therms)



Natural Gas (Tons CO2)



RESULTS

Electricity equates to 26 percent of our overall greenhouse gas footprint, or 28,485 tons of CO2 and 59,539 mWh. However, we used 2.4 percent less energy throughout our facilities in 2010 as compared with 2009. We added new facilities that consume energy – four new stores, and the relocation of two retail locations to larger spaces – we only experienced a 1.8 percent increase in our climate impact from the energy we consumed. This increase is attributed to discontinuing one green power contract that supplied electricity to a number of our stores.

Our natural gas usage was slightly reduced at 3,918 tons of CO2, compared with 3,924 tons of CO2 in 2009. Further, spending on energy to power our facilities has remained essentially flat for the past three years. We recognize this is partially due to energy rates not increasing the past two years during the challenging economy across in the country.

We utilized the [U.S. Environmental Protection Agency's Energy Star Benchmarking Tool](#) to compare our facilities against thousands of other buildings across the country, including the retail industry. Our insights have helped REI identify opportunities that would be best to focus our time and resources, sometimes against our intuition. For example, it could be more advantageous for REI to

focus on adjusting one store entirely rather than spreading investments across a few retail locations.

Retail

Despite adding four new retail stores in 2010 and relocating two additional stores to larger footprints formats, the company used 2.4 percent less energy in our facilities in 2010 than we did in 2009. The primary driver of this performance was a 1.3 percent drop in our retail energy use via our ongoing commitment to efficiency investments such as spotlight retrofits and higher performing HVAC units. This drop complements our 2.2 percent decrease in retail usage in 2009.

Self generation, or solar power, remained at 11 of our retail locations, generating more than 1.146 mWh of green energy, a decrease of 3.1 percent over 2009.

At the end of 2010, 21 stores were 100 percent powered from green energy sources. We also discontinued a contract with a green power provider in Colorado that no longer met our [green power procurement criteria](#).

Distribution Centers

Our Bedford, Penn. distribution center experienced a 4.8 percent increase in energy usage over 2009, primarily due to expanded operating hours as a result of adding a second full shift. However, energy use at the Sumner, Wash. distribution center decreased by 5 percent from 2009 because of some energy efficiency updates and a milder winter than the previous year.

Headquarters

We continued our efficiency efforts within our data center through server virtualization, thus reducing the overall physical footprint of our server needs while maintaining service to our stores and customers. We also installed electricity sub-metering to track our consumption and better understand our baseline and how improvements can positively impact our usage.

We completed a significant lighting retrofit in our fixture shop in late 2009, resulting in a reduction in electricity usage by 37 percent in 2010 -- the most significant drop of the past three years.

LOOKING AHEAD

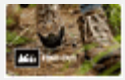
As we look to 2010 and beyond, REI will remain focused on increasing energy efficiency and green building features in our new construction and building retrofits. We will also continue to seek long-term contracts for renewable energy and strategies that provide long-term cost stability.

We intend to expand our on-site energy production through additional retail store solar systems in 2011. This investment makes great sense for the co-op because it reduces greenhouse gas emissions, reduces operating costs, and mitigates our exposure to the volatile energy markets.

REI is also in the process of opening a co-location data center in Nevada in one of the most efficiently designed sites in the country. This move will lead to large reductions in energy use as we transfer our computing load to that facility.

Starting in 2011, our energy use will become a performance indicator across the company. The 2011 budget is to be flat to 2010, or 268,238,092 kBtu, regardless of our growth.

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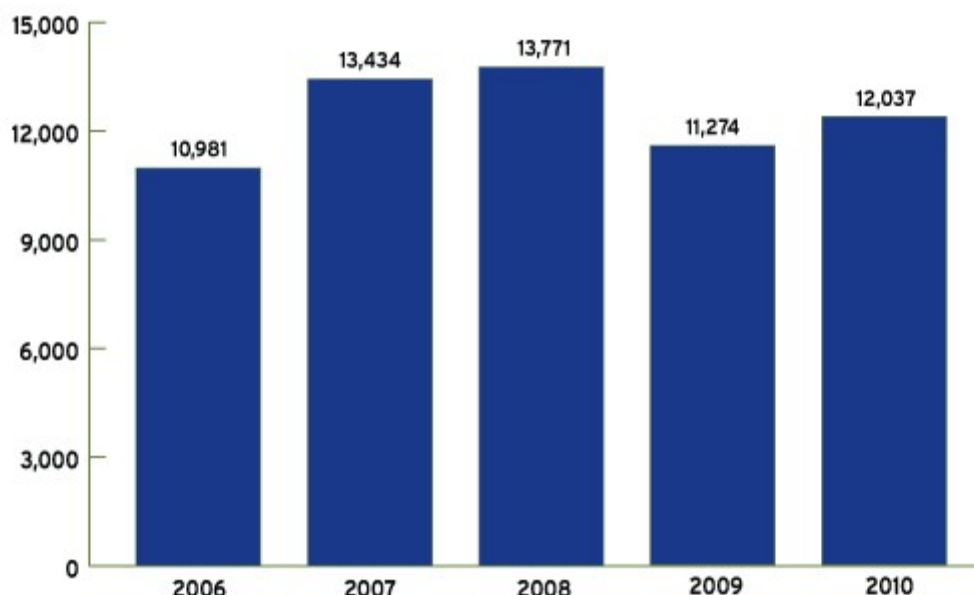


Product Transportation

REI's logistics teams manage domestic and international product transportation to ensure that our distribution centers and stores deliver customers' products when and where they want them. This process requires the efficient coordination among our operations and many merchandise vendors.

In recent years, our logistics teams have focused on better understanding how this facet of our business contributes to our environmental footprint. This includes our ongoing reliance on third-party shipping vendors, and collaboration with them to pursue opportunities for improvement.

Product Transportation (Tons CO2)



RESULTS

In 2010, product transportation accounted for 11 percent of our GHG emissions, similar to 2009. This represents a 6.8 percent increase over the prior year.

While our international air freight elevated in 2010, our teams collaborated with our vendors on origin consolidation to help reduce inefficiencies. In addition, we partnered with our major international shipping partner to create a dashboard and forecasting tool to measure the GHG emissions of each shipment sent to REI.

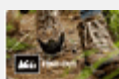
The efficiencies realized in product transportation are also closely tied to REI's commitment to reduce [packaging](#) and our collaboration in the Outdoor Industry Association [Eco Working Group](#). For example, our Novara bike brand has addressed the packaging used during the manufacturing process and shipment to our distribution centers. Through a significant redesign of our bike boxes, we reduced the amount of packaging used by 68 percent, while increasing the number of bikes able to be shipped in a container by 10 percent. These shipping improvements also equate to time efficiencies in unpacking and assembling bikes, resulting in financial benefit for REI.

Our company partnered with our primary international logistics provider to collaborate on a tool that gives us more specific visibility of the greenhouse gas impact of specific international container shipments.

LOOKING AHEAD

We look forward to working with our vendors, factories, shipping companies and others to both share our innovations and learn from theirs. For example, REI has worked with the [Sustainable Packaging Coalition](#) to identify efficiency solutions and share best practices. We will continue to participate in the sub-group of the Outdoor Industry Association to develop common guidelines for packaging materials and process that we believe will deliver benefits in coming years.

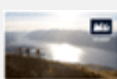
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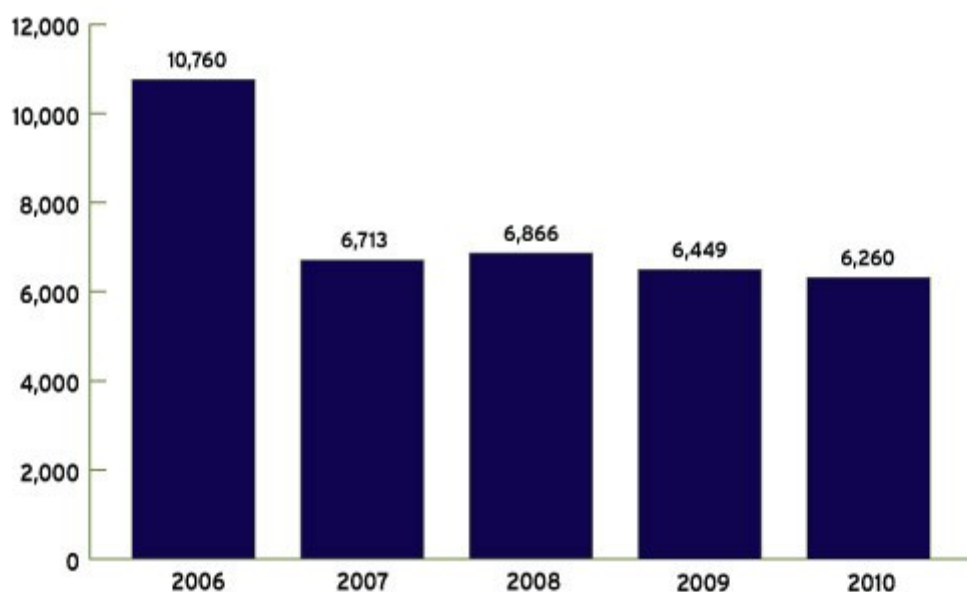
[Stewardship](#) > [Report](#) > [Sustainable Operations](#) > [Greenhouse Gas Emissions](#) > Direct Fulfillment



Direct Fulfillment

Direct sales, primarily fulfilled purchases made at REI.com, account for a healthy percentage of our revenue but also contribute to our climate impact. For several years, the company has offered complimentary shipping for store pick-up for orders made through REI.com, the REI catalog or our 800 number.

Direct Fulfillment (Tons CO2)



RESULTS

In 2010, our growth in our direct sales channel was 22.9 percent. While the volume of customer orders increased, we experienced a reduction in emissions of 2.9 percent or 6,260 tons of CO2 for this area of our business.

This improvement is attributed to the introduction of free ground shipping to members, which reduced customer requests of air freight and our improved communication of delivery times on REI.com during the check out stage of an online order. We also focused on balancing our inventory between our West Coast and East Coast distribution centers, reducing the need for long cross-country shipments.

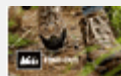
LOOKING AHEAD

REI's approach is to ensure that customers and members have access to the products they want when they want them, while minimizing the transportation impacts. For example, we now offer online customers visibility to store inventory so they may learn if their desired product is available locally and would not require shipping. We will continue to invest in logistics infrastructure and technology that will meet customer needs and increase the efficiency of transportation.

Our continued involvement in the Outdoor Industry's Eco Working Group will also help us address and implement efforts to minimize unnecessary packaging that we're currently shipping. These actions will reduce the weight of a shipped packaged and resulting CO2 impact.

We continue to work with our third-party carriers to understand the exact greenhouse gas impacts of the packages we ship, which will allow us to continue to optimize our logistics network.

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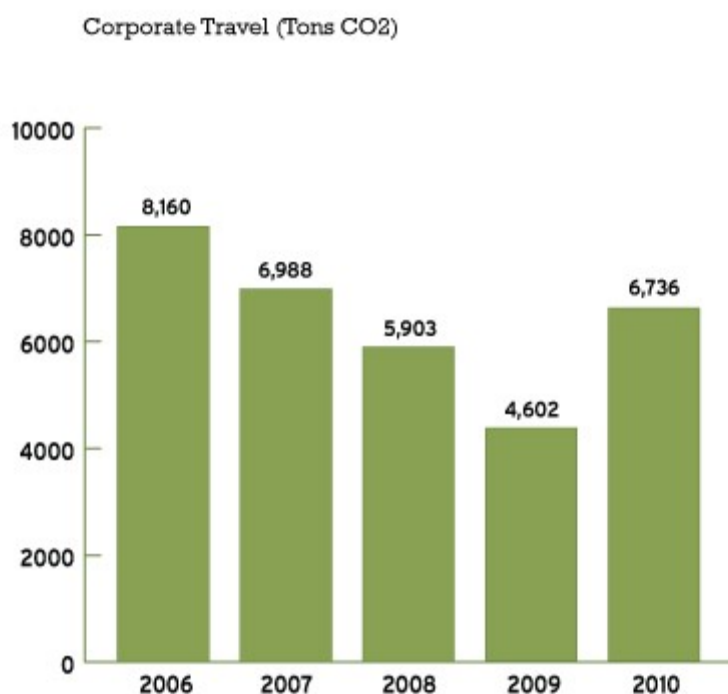
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Corporate Travel

As REI delivers on its commitment to introduce innovative products and better serve our members and communities, corporate travel remains important to our business model. Travel connects REI employees with our industry partners, community partners and each other.

To [measure](#) the climate impact of corporate travel, we count the impacts of transportation (air flights or train trips, rental car usage, and mileage driven by employees while on REI business). We do not currently include indirect impacts, such as the energy used in the hotel where the employee stays.



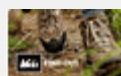
RESULTS

Traveling REI employees increased our GHG emissions by 46.4 percent, comparable to the frequency of travel pre-recession. In 2010, we did not assign divisional accountability in managing CO2 related to corporate travel.

LOOKING AHEAD

The company is expanding its video conferencing capabilities at our headquarters and distribution centers, to serve as a resource for employees who do not need to travel for business meetings and interact in person with vendors.

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Miscellaneous Greenhouse Gas Emissions

These emissions are generated from sources including fuel used in fleet vehicles and refrigerants that may escape from one of our building's HVAC systems. While these miscellaneous emissions continue to represent a very small percentage of our total climate impact, they remain difficult to fully eliminate.

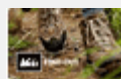
RESULTS

In 2010, miscellaneous emissions increased by 21.7 percent to 443 tons of CO2. We expect these sources to remain inconsequential and insignificant contributors to REI's total GHG footprint.

LOOKING AHEAD

For the foreseeable future, we will continue to address these small sources of GHG emissions on a case-by-case basis by weighing the considerable efforts required to fully eliminate.

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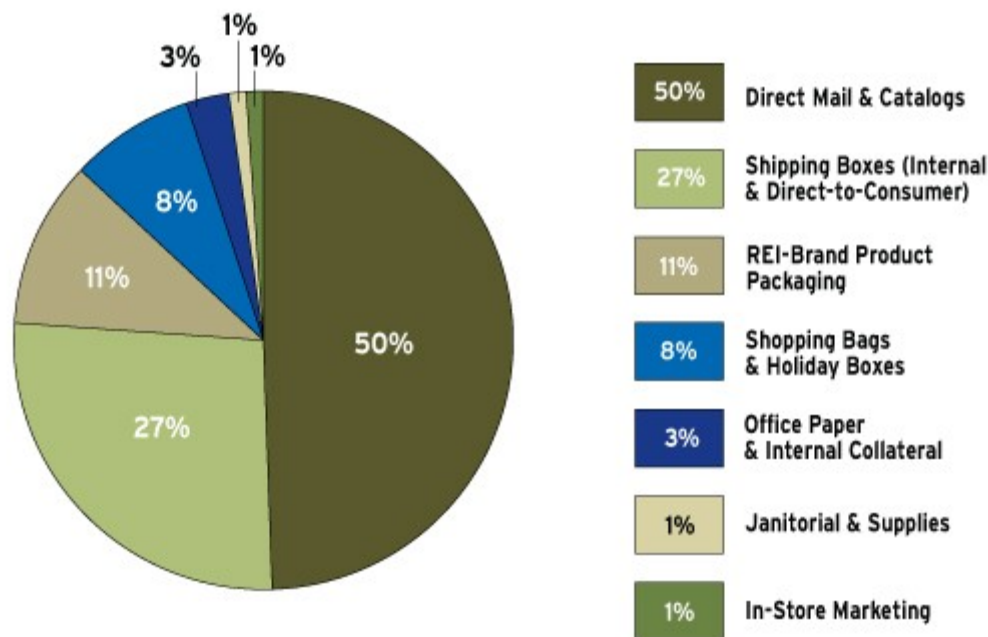
Paper Usage

As an outdoor gear and apparel retailer and active steward of public lands, the availability of healthy forests is essential for everyone's enjoyment. The paper products we use significantly impact our environmental footprint, including cardboard to ship products, paper in our catalogs, or packaging materials that protect our branded gear and apparel. The connection between healthy forests, outdoor recreation, and the paper fiber we use in our operations is clear.

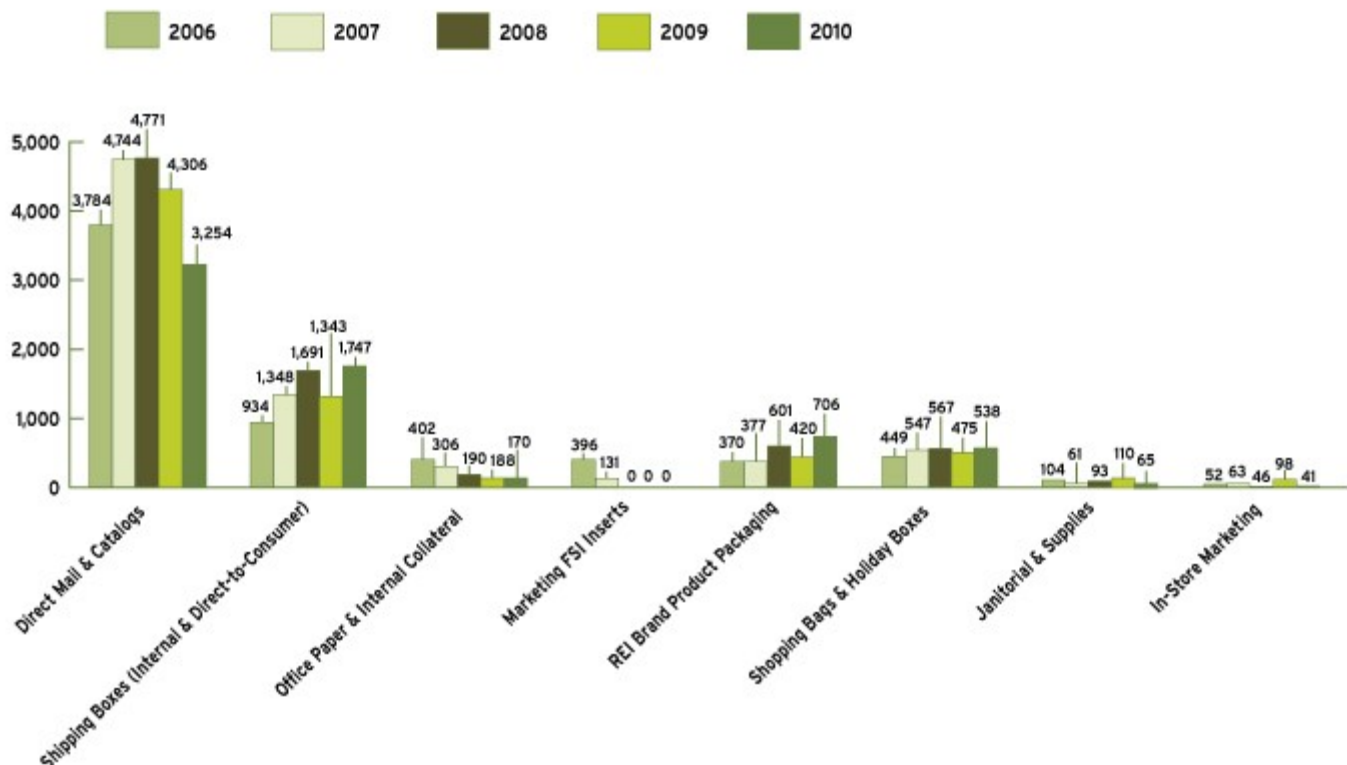
REI formalized its [paper and paper products purchasing policy](#) in 2006. The policy is designed to positively influence our own environmental footprint, the paper supply chain including and beyond our purchasing practices, and align our operations with our values and aspirations. We strongly prefer to purchase paper products manufactured from post-consumer waste or virgin fiber harvested from Forest Stewardship Council (FSC)-certified forests. We work to avoid buying products where the fiber comes from unknown or unwanted sources.

Our goals for 2010 were to increase the percentage of certified and recycled fiber, while continuing to address the unknown and undesirable fiber in some of our cardboard and other operational supplies. Thus, our percentage goals for chain-of-custody and fiber source remained the same as in 2009.

2010 Estimated Paper Usage



Paper Usage (Tons)



Paper Efficiency

	2005	2006	2007	2008	2009	2010
Annual Sales (MMS)	\$1,022	\$1,182	\$1,342	\$1,440	\$1,455	\$1,659
Total Paper (Tons)		6,491	7,577	7,969	6,940	6,523
Total Paper Efficiency (MM Sales \$ / Tons)		0.182	0.177	0.181	0.210	0.254
Total Virgin Fiber (Tons)		4,828	5,974	5,806	5,314	4,560
Virgin Fiber Efficiency (MM Sales \$ / Tons)		0.245	0.225	0.248	0.274	0.364
Direct Mail (Tons)	3,769	3,785	4,744	4,771	3,626	3,254
Direct Mail Efficiency (MM Sales \$ / Tons)	0.270	0.310	0.283	0.302	0.401	0.510

Chain of Custody Goals

	Est. 2005	2006	2007	2008	2009	2010 Goal	2010 Actual
Unknown	29.0%	20.0%	10.8%	9.0%	6.7%	< 2%	11.0%
Known	71.0%	79.0%	72.4%	65.3%	55.1%	83.0%	30.6%
Certified	0.0%	<1%	16.8%	25.6%	38.2%	15.0%	58.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source of Fiber Goals

	Est. 2005	2006	2007	2008	2009	2010 Goal	2010 Actual
Unknown	16.0%	19.8%	11.5%	6.4%	6.7%	< 2%	12.3%
Undesirable		1.8%	5.6%	8.5%	6.0%	< 5%	6.8%
Recycled	20.0%	25.6%	21.2%	27.1%	23.4%	30.0%	30.1%
Acceptable	64.0%	52.8%	50.0%	39.0%	36.5%	48.0%	11.0%
Certified		0.0%	11.7%	19.0%	27.3%	15.0%	39.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

RESULTS

While still the largest contributor to our paper footprint at 50 percent, our direct mail use has decreased to less than 3,300 tons due to our focus on optimizing our catalogs and exploring other means to market our brand such as mobile technology. This is our second straight year of a significant decrease in our direct mail paper use.

During 2010, we far exceeded REI's goal for FSC-certified paper fiber, increasing our total volume to 58.4 percent of our total paper footprint last year from 38.2 percent in 2009. The majority of this paper is used for marketing collateral, such as catalogs, and these sources are printed almost entirely on FSC-certified papers. Our cash register receipt paper is also now FSC-certified. There remains some challenge to procure FSC-certified paper for some areas of our business operations, such as cardboard.

Areas that continue to present difficulty in meeting our goals to minimize our unknown and undesirable paper fiber procurement include toilet paper and paper towels, and challenges in finding preferred sources of fiber for shipping boxes, including those used by our REI Gear & Apparel brand to ship product from overseas. Our increase in the percentage of unknown and undesirable fiber comes mainly from the increase in our shipping boxes, as well as the reduction of direct mail, which is printed on our most-preferred paper stocks.

Industry collaboration remains a focus of our paper strategy, as well as is an emphasis as part of our [product stewardship](#) efforts. In 2010, we hosted a collaborative event in Seattle of our primary paper supplier and their peers to share sustainable paper strategies for the benefit of other companies. By collectively offering our insights and challenges, we are helping each other to become more knowledgeable in our shared interest for responsible paper procurement.

In addition, through our involvement in the Outdoor Industry Association Eco Working Group, we have collaborated with the outdoor industry to optimize the packaging used to ship products. This collaboration has also provided us the opportunity to share our insight from our redesign of Novara-brand bike boxes to decrease paper use and increase efficiencies, as also mentioned in the [product transportation](#) section of our 2010 stewardship report.

LOOKING AHEAD

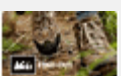
We continue to face challenges in eliminating unknown and undesirable fiber from our operations, despite great success in increasing the amount of certified fiber we use. Besides continuing to optimize our use of operational supplies that come from non-preferred sources, we are finding ways to minimize our purchase of these supplies. For example, we are standardizing the size of the cardboard boxes used to ship our REI-brand Gear & Apparel so that we can recapture these boxes at our retail stores and include them in our cardboard box reuse program between our distribution centers and stores.

As we approach product manufacturing through the sustainability lens, REI is addressing how best to assess the total lifecycle of the paper we purchase, including factors such as the amount of energy used in the paper manufacturing facility, which inks are utilized and how paper is printed.

REI is also working to benchmark REI's paper use using [GreenBlue's Environmental Paper Assessment Tool](#) (EPAT). GreenBlue is a non-profit organization that works with businesses to evaluate, select and manufacture environmentally preferable wood and paper products. EPAT provides buyers and sellers of paper products a consistent language and metrics framework to evaluate and select environmentally preferable paper.

REI's ongoing work to minimize packaging will reduce the total amount of cardboard and plastic used for shipping product. New design tools, including palletizing software for optimizing packaging dimensions, will allow us to specifically measure and understand the reductions we achieve.

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2010 STEWARDSHIP REPORT

SUSTAINABLE OPERATIONS

Waste and Recycling

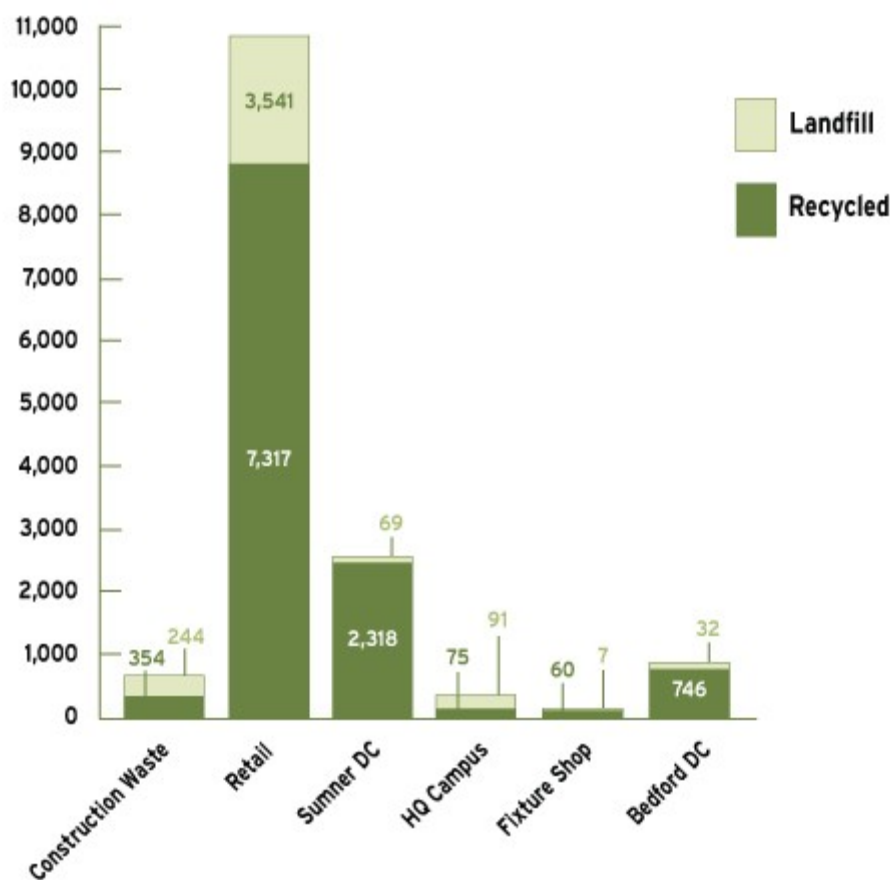
With an aspiration to be a zero waste-to-landfill organization by 2020, our long-term approach drives us to seek efficient business and environmental practices to reduce solid waste and the associated costs of packaging, disposal and shipping.

Our strategy goes beyond the traditional “reduce, reuse, recycle” model to address challenges, such as packaging redesign to eliminate waste during the manufacturing process.

2010 Waste Summary

	Tons		Percent Recycled
	Recycled	Landfill	
Construction Waste	354	244	59%
OPERATIONAL WASTE			
Retail	7,317	3,541	67%
Sumner DC	2,318	69	97%
Bedford DC	746	32	96%
HQ Campus	75	91	45%
Fixture Shop	60	7	89%
Overall Operational Waste	10,516	3,740	74%

2010 Waste Stream (Tons)



RESULTS

The majority of REI’s waste comes from our operations, including cardboard, plastic and compostables; waste generated from new construction; and waste generated from remodels of existing REI facilities.

Because of the inability of our waste vendors to accurately quantify the weight of waste we dispose in standard roll-off dumpsters, we amended our [methodology](#) for quantifying our waste-to-landfill for these dumpsters. We now assume that each dumpster is full when emptied and we use an REI average density for landfill waste to convert this volume to an estimated tons of waste to landfill. This aligns our waste service levels and progress directly to our financial expense, and it also simplifies tracking and clarifies our progress. Prior to this, we used a methodology that estimated how full our dumpsters were (as a percentage) to chart our progress towards our zero waste to landfill aspiration.

This change improves our ability to show progress towards our aspiration, but it overestimates our actual tons of waste to landfill (in the short term) for all facilities that have standard roll-off dumpsters and makes it difficult to compare data from 2010 with previous years. We believe that achieving zero-waste to landfill across REI’s operations will be measured by our elimination of

landfill dumpsters, and that measuring dumpsters is the most concrete way of charting our progress.

With this new methodology in 2010, we landfilled 26 percent of our operational waste by weight (3,740 tons). Though this looks like an increase from 2009, this comes from counting all dumpsters as “full” rather than estimating the waste as a percentage of full.

Industry collaboration remains a priority for REI in addressing our waste stream. Our involvement includes the Outdoor Industry Association's Eco Working Group in which a collection of organizations have teamed to systematically address [packaging solutions](#) through the development of assessment tools. Minimizing shipping packaging for the products we sell is our largest opportunity to reduce our waste to landfill.

Distribution Centers

Thanks to the diligence of our “green teams” and employees at our Sumner, Wash. and Bedford, Pa. distribution centers, both of these facilities diverted over 95 percent of their waste stream from the landfill. This achievement is even more remarkable considering the overall growth of the co-op of 14 percent (by sales) and 22.9 percent sales in our direct sales channel.

Headquarters

Our headquarters in Kent, Wash. continues to provide extensive recycling of commodities, including compostable waste from our café.

Retail Stores

In 2010, we updated our contract with our waste vendor to enter into an improved strategic partnership for stores across the country, except for mall locations. This includes vendor support for individual stores to “right size” their dumpster and the identification of new recycling streams for materials such as plastic shipping bags and other challenging commodities. We believe this is a unique partnership for a national retailer and a waste hauler to collaborate on addressing waste reduction and recycling goals.

With REI locations in mall settings, we share waste and recycling services with other tenants. As a result, it can be more difficult to quantify and implement solutions.

Construction Waste

In 2010, our construction waste recycling percentage for new stores and major remodels rose to over 59 percent, with 354 tons diverted from landfill.

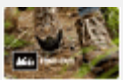
LOOKING AHEAD

By transforming our approach from an “end-of-the-pipe” mindset to regularly considering solutions throughout the manufacturing and shipping processes, we will be better able to identify, prioritize and create strategies that minimize the waste that is introduced throughout the product manufacturing and shipping processes. Some of our early work is outlined in the [direct fulfillment](#) and [product stewardship](#) sections of our 2010 stewardship report, and includes work to eliminate some plastic bags used for shipping apparel and working with industry partners to use the Eco Index to measure and manage packaging waste at the product level.

With high diversion rates at our distribution centers, our focus will continue on working for improvements in recycling services for our stores across the country.

In the coming year, we will expand our construction waste reporting to include every capital project, including those not part of a major remodel or new construction, taking a broader perspective on our waste stream.

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2010 STEWARDSHIP REPORT

SUSTAINABLE OPERATIONS

Green Building

REI's buildings reflect our core purpose and provide employees the opportunity to engage with our communities, members and customers. Our built environment also accounts for one of our largest environmental impacts. We apply green building principles to address several of our environmental priorities, including [energy efficiency](#), [renewable energy](#) and [waste reduction](#).

Whether we are retrofitting an existing facility or building a new store from the ground up, our goal is to integrate sustainable design elements and for our facilities to be as energy efficient as possible. This approach also provides financial savings to the co-op.

To date, six REI facilities have received the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) certification, totaling more than 690,000 square feet, or approximately 15 percent of REI's total square footage. We don't seek LEED certification for every REI building, but look to the LEED standards as guiding principles in design and construction.

RESULTS

In previous reports, we highlighted our prototype-design stores located in Boulder, Colo. and Round Rock, Texas. The experience, insights and learning we gained from those investments is paying off as we adopt attributes of those stores into our current standard package with new stores.

Features that are considered during the design process of every new retail store include energy-efficiency measures, low flow sinks, dual flush toilets, solar hot water, and passive solar design. Fixtures are manufactured from sustainable materials, Forest Stewardship Council (FSC)-certified woods, rapidly renewable fiber products, polished concrete and durable steel. Carpet tiles are made from recycled carpet and require no adhesive, making them easy to replace and 100 percent recyclable. All materials have no added formaldehyde, are low or zero VOC and can be recycled, refurbished or reused.

We assessed our facilities' energy use against thousands of non-REI buildings using the [U.S. Environmental Protection Agency's Energy Star Benchmarking Tool](#). These insights have helped REI identify opportunities in energy use, which are also considered green building efforts, on how best to focus our time and resources.

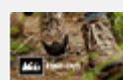
We continue to retrofit HVAC systems in our stores and we remain on track to eliminate units that use Freon (R22), a substance harmful to the ozone layer, by 2020 by replacing them with equipment that is more efficient and less impactful to the climate. The HVAC units are connected to an energy management system, which minimizes how often they must be on to control temperature fluctuations. These investments reduce our energy impacts and improve the comfort and indoor air quality of our stores for our employees and customers.

LOOKING AHEAD

We intend to expand our on-site energy production through additional retail store solar systems in 2011. Currently, 11 stores feature solar power systems and collectively they produced over 1.1 million kWh in 2010. Our investment in solar panels makes great sense for the co-op because it reduces greenhouse gas emissions, reduces operating costs, and mitigates our exposure to volatile energy markets.

REI's store development division continues to evaluate our facility design and lighting as technology evolves, allowing us to reduce the energy impact of our stores. Combined with occupancy sensors and an energy management system, we are able to minimize the time each day that our lights must be on.

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2010 STEWARDSHIP REPORT

SUSTAINABLE OPERATIONS

Product Stewardship

For several years we have been working to better understand and measure the environmental impacts of products throughout their life cycle. This effort has led us to the conclusion that the environmental impact associated with product is probably larger than all other impacts we have as a company.

In 2010, REI developed a new product stewardship vision and included it as a key initiative in our five-year strategic plan. That vision is to understand, disclose and actively address the environmental and social impacts of products at all phases of their life cycle. Our primary tool for this work is the [Outdoor Industry Association's Eco Index](#), which we helped develop and test.

Understanding the impacts of products at all phases of the life cycle is a complex and difficult task. Our supply chain partners often do not know or are sometimes reluctant to share deep information about the chemistry, manufacturing process and sourcing of materials. Working together with other brands, suppliers, academics and the NGO community, we can think differently and we can achieve different results.

Our plan is to use the Eco Index to develop reportable indicators and metrics of our product stewardship efforts over the next few years. In the meantime, we are reporting on key efforts and results of the work in progress. Our commitment is to learn and understand the impacts of products and then disclose that information in ways that are accurate, meaningful and relevant to our members. This process has begun in a limited way by sharing the "pro's and con's" of materials chosen in our ecoSensitive® program.

REI designers and merchants will make choices for improved environmental performance based on the Eco Index guidelines, indicators and measures. We intend to be able to report on progress based on this approach over time.

RESULTS

REI-brand products

REI ecoSensitive

In 2007, we introduced REI's ecoSensitive label, identifying products that were made with materials we believe have improved environmental attributes compared to their conventional counterparts. These included organic fibers (such as organic cotton, hemp, wool), renewable or recycled fibers such as post-industrial recycled polyester, recycled polyethylene terephthalate (PET) plastic and polylactic acid (PLA). The number of ecoSensitive products we offer has increased from 40 in 2007 to more than 200 in 2010; however, this was down from over 250 in 2009.

In 2010 we began to see some shortcomings of the ecoSensitive designation. For example, in changing our base layer design we were able to use a bluesign™-certified process which we felt was a better environmental choice; however we were not able to use a high enough percentage of post consumer recycled fiber to meet the ecoSensitive designation. We feel our designers made the better choice, but this type of challenge led us to undertake an effort to define improvements to our ecoSensitive program. The result is that beginning in 2011 we will incorporate improved environmental design across all products and categories to lessen our impact, and that of our customers.

Packaging

We have worked in collaboration with the Sustainable Packaging Coalition for several years to develop and implement packaging guidelines across the company. In 2010 the OIA Eco Working Group adopted [guidelines](#) and indicators based on this work. As a result, the benefits we have seen in our own brand – reduced package volume, improved transportation efficiency and elimination of unwanted materials such as PVC clamshells – will be shared across the outdoor industry. The results of this work can be seen in other sections of this report for example in reduced transportation-related GHG emissions, reduced waste due to packaging and near elimination of unknown fiber sources in our paper packaging.

bluesign

In late 2008, REI became a member of bluesign technologies ag. We consider the bluesign standard as the strongest global solution available to proactively address textile environmental, health and safety issues, specifically the impacts of chemicals in fabrics and processing.

In 2010, we increased the volume of our apparel that met the bluesign standard, primarily due to the conversion of our high volume polyester base layer product line (underwear) to use materials that are bluesign-certified.

Other Brands

About 80 percent of the products we sell at REI are manufactured by other brands. One of the greatest opportunities we have is to collaborate with other brands in order to influence the entire supply chain regarding product stewardship. We have been very involved with Outdoor Industry Association (OIA) [Eco Working Group](#), a collaboration of more than 150 outdoor industry brands, suppliers, manufacturers and other stakeholders working to create a shared methodology for measuring and reporting product impacts.

The Eco Working Group introduced the beta version of the Eco Index in 2010. Over 100 companies tested the tool, including REI. The results have shown the tool to be effective and helpful in communicating environmental performance and aiding designers in their effort to better identify opportunities for improvement in their products. Success with the tool has encouraged other companies and groups outside of the outdoor industry to evaluate it for their use. REI, Patagonia and other outdoor companies are currently working with major retailers and brands such as Target, Levi, Gap, and Walmart in a group called the [Sustainable Apparel Coalition](#) that may result in even wider spread use of the Eco Index tool.

LOOKING AHEAD

Product stewardship represents one of our biggest challenges and one of our biggest opportunities. We will continue to invest in the development of environmentally-preferred products and reliable metrics. As we are better able to identify and quantify the environmental impacts of products, we are committed to sharing that information. We will focus on collaboration with other members of the OIA Eco Working Group and support the resulting tools that emerge from that collaboration.

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Methodology

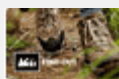
This report covers REI's 2010 fiscal year, and is our fifth annual report (following our [2006](#), [2007](#), [2008](#), and [2009](#) reports).

- We report on all of our operations, almost all of which are all U.S.-based. The exceptions to our U.S.-based operations are our international REI Adventures trips that run in more than 40 countries.
- We include the impacts from both owned and leased facilities.
- In one notable case, we report directly on third-party vendors to address our fair labor and factory compliance work, which details our efforts with our REI-brand gear and apparel supply chain. We contract all of our manufacturing to third-party vendors.
- Also, our report covers our operational footprint (both direct and indirect aspects), but it does not tackle accounting the embedded environmental attributes of products in our [GHG](#) or [energy sections](#), for example.

Links to REI's specific environmental methodology and policies, and our latest Climate Counts scorecard are as follows:

- [Greenhouse Gas Methodology](#)
- [Renewable Energy Specification](#)
- [Paper Policy and Definitions](#)
- [Waste Methodology](#)
- [Climate Counts Industry Innovators Scorecard \(pdf\)](#)

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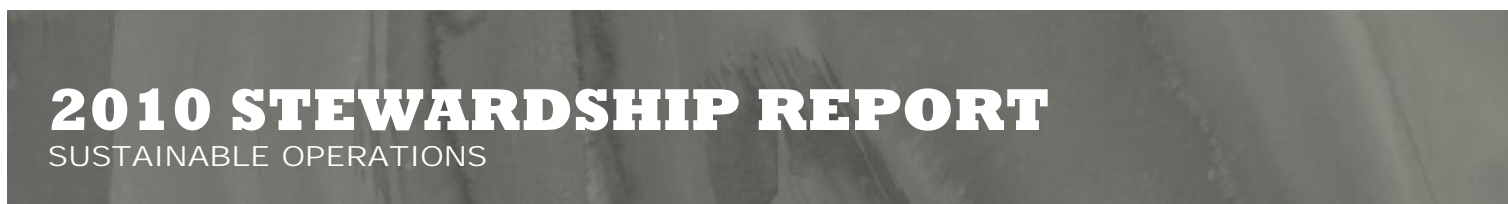
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Greenhouse Gas Methodology

REI's estimated greenhouse gas (GHG) footprints are based on the best practice carbon reporting standards of the Greenhouse Gas Protocol, developed out of a joint partnership between the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD). The Greenhouse Gas Protocol serves as the foundation for nearly every GHG standard and program in the world.

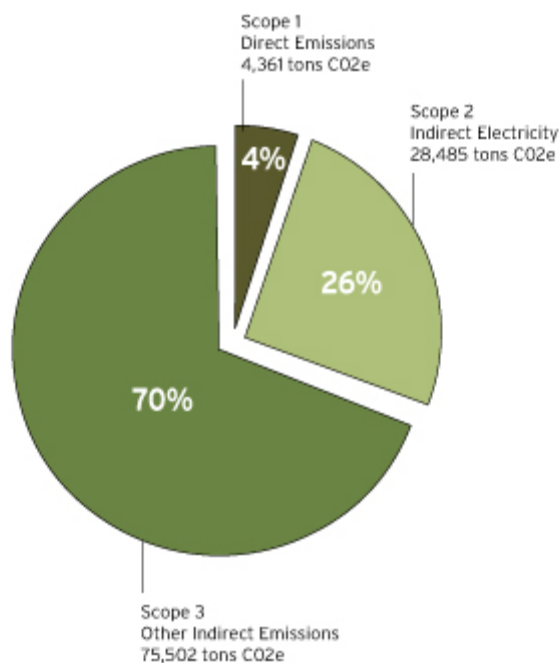
REI's carbon footprinting is based on WRI's GHG Protocol, though there are some variations in our use of WRI emissions factors; specifically, if we have direct information about our climate impact that is more accurately representative of our footprint.

As a retailer that doesn't directly burn fossil fuels or own production facilities, we have very few direct (Scope 1) greenhouse gas emissions, and our carbon footprint falls mostly with Scope 2 and Scope 3 indirect emissions. REI includes several significant Scope 3 emissions in our GHG inventory, as we decided that they were material and significant to our business operations. We report significant detail in our accounting of Scope 3 emissions, where the majority of our impact occurs.

In defining the boundaries for a company's climate footprint, the Greenhouse Gas Protocol methodology differentiates between direct and indirect emissions.

- Direct GHG emissions: emissions from sources that are owned or controlled by the reporting entity, known as Scope 1.
- Indirect GHG emissions: emissions that are a consequence of the activities of the reporting entity, but occur at sources owned or controlled by another entity. The impacts of purchased electricity are known as Scope 2, and other indirect emissions are known as Scope 3.

2010 Carbon Footprint (WRI Guidelines)



Scope 1: Direct Emissions

4 percent of REI's 2010 impact (4,361 tons CO2e):

- Natural gas usage
- Fleet emissions
 - Outdoor School passenger vans
 - Mail and courier vehicles
- Other
 - Refrigerant leakage from HVAC systems

Our only significant non-CO2 greenhouse gases in our footprint are the refrigerants that escape through normal operations used in our HVAC systems in our facilities. No other Kyoto gases show up in REI's footprint.

Scope 2: Indirect Emissions from Electricity

26 percent of REI's 2010 impact (28,485 tons CO2e):

- Electricity usage

Scope 3: Other Indirect Emissions

70 percent of REI's 2010 impact (75,502 tons CO2e):

- REI Adventures' customer travel
- Employee commuting
- Product transportation
- Direct fulfillment shipping
- Corporate travel
 - Air travel
 - Rental car usage
 - Employee mileage

Energy Use (Climate Impact):

Electricity & Natural Gas

Energy consumed by REI's operations, including natural gas and electricity at all owned and leased facilities. We do not include the energy used in third-party facilities, such as vendor factories or catalog printing facilities.

Our burning of natural gas directly converts into CO2 using standard conversion factors.

Electricity we buy from utilities is converted to CO2 by using the latest eGrid emissions factors at the sub-region level. Because the eGrid sub-region for western Washington significantly under represents the CO2 impact of electricity from our utility and this is a material difference, we use Washington state reported CO2 figures that more accurately represent our climate impact for this area. We use this methodology because a significant percentage of our overall electricity usage comes in western Washington (where our headquarters, several stores, and one distribution center are), so without this adjustment we would under represent our climate impact.

Moving Product:

To create our GHG inventory, we claim the carbon impacts for the shipment of goods that we own, or in cases where we schedule and control the transportation. Thus, we take responsibility when a vendor ships products from their location to our distribution centers because we control the method and timing of deliveries. We also include the emissions that result from sending product by truck from our distribution centers to our stores, or when we fulfill a direct sales order by shipping a package via a carrier such as UPS. This approach means that REI assumes responsibility for emissions in three areas: goods inbound (from vendors or factories to our distribution centers or stores); intra-company transfers (shipments from our distribution centers to our stores, between stores, or from stores back to our distribution centers); and direct fulfillment (Internet, 800 number and catalog sales shipped directly to customers).

Increases in REI's GHG impacts can result from the growth of our business, such as increasing the number of stores we operate or the factories that supply our goods, and by using additional air transport to fulfill direct next day customer orders.

Goods Inbound:

Truck transportation: Truck transportation from vendors to our distribution centers is computed by a ton-mile calculation using the vendor location, the 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" (LTL) freight shipments consistent with our method in inter-company transfers. Because the average density of our product is less than other shipped goods, we adjust this average value to more accurately represent the CO2 impact of our shipments. Without adjustment, our impact would be significantly lower.

Direct delivery to our stores: Our product vendors also deliver some product directly to stores, and this occurs via parcel post and LTL freight shipments. The CO2 impacts from these deliveries have been computed based on total ton-miles of freight multiplied by the average impacts of parcels or average impact of LTL freight.

Goods Outbound:

Truck transportation from our distribution centers to our stores is computed by a ton-mile calculation using the distribution center location, the 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 LTL freight shipments consistent with our method in intercompany transfers. Because the average density of our product is less than other shipped goods, we adjust this average value to more accurately represent the CO2 impact of our shipments. Without adjustment, our impact would be significantly lower.

Inter-Company Transfers:

This category is dominated by LTL freight transportation of goods between our two distribution centers, goods moved between stores, and shipments from our stores back to our distribution centers. These shipments are via common carrier freight services.

Our method of calculation is to measure the total tons of cargo, the number of deliveries and the distance from the distribution center to each store. We use these factors to compute a total freight "ton-miles." To calculate CO2 impact, we use a national average for fuel mileage of truck fleets (seven miles/gallon) and truck hauling weight based on the density of our shipments. Our shipments are less dense than the shipping industry norm, so our factor adjusts for this. We then apply a standard conversion from diesel fuel gallons to pounds of CO2 (22.2 pounds/gallon), which gives us a CO2 factor per freight ton-mile. We then multiply our total freight ton-miles by this factor to give a reasonable calculation of our CO2 impact.

Direct Fulfillment:

This category includes fulfillment of customer orders placed through the REI catalog, 800 number or REI.com. The majority of these shipments go through the UPS 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 centers to the customer. While this eliminates 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 1,342 miles (delivery to Denver). We computed the total CO2 impact based on our average package weight shipped for the average distance and we used the same CO2 factor computed for truck delivery.

For shipments by air, we omitted 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. As our carbon reporting evolves, we continue to seek best practices in carbon footprinting and its methodologies and emissions factors.

Moving People:

Corporate Travel & Employee Commuting

To measure the climate impact of corporate travel, we count the impacts of transportation (air flights or train trips, rental car usage, and mileage driven by employees while on REI business.) We do not currently include indirect impacts, such as the energy used in the hotel where the employee stays.

For air travel, we use the same conservative emissions factor per passenger mile as we use for our REI Adventures trips. This emissions factor includes a significant multiplier to account for the increased climate-change impacts of radiative forcing, and does not calculate CO2 based on flight segment length. Our calculations are more conservative than most, meaning that they generally overestimate the climate impact compared to other methodologies. We continue to seek flight and carrier level CO2 factors, so we can more accurately measure our impact as well as shift our business to the most efficient carriers.

For rental cars, we measure the number of rental days booked by REI employees, and use industry averages for average miles per day and fuel mileage for the classes of cars we rent to calculate CO2.

We measure the climate impact of employee travel by taking the miles-driven (submitted for expense reimbursement) and converting to CO2 based on U.S. Environmental Protection Agency figures for the average mileage of the passenger vehicle fleet.

Employee Commuting:

To estimate the climate impact of our employees commuting to work in 2010, we combined our known employee data with our fourth annual commuting behavior survey. This survey confirms trip distances, work schedules, and commuting behavior. We assume that employees who didn't respond to the survey have the same commuting habits as those who did respond. This can introduce some error into our estimates. To calculate total miles and emissions, the measurements are projected to reflect the entire population at each location.

In order to project the total company emissions, a number of estimates are used to calculate the carbon emissions for retail employees and the Bedford distribution center. In 2010, these estimates were calculated using these guidelines:

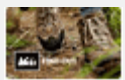
1. Our largest facilities (our headquarters, Sumner, Wash. distribution center, Bedford, Pa. distribution center, and Seattle store) were measured directly, and their CO2 output was calculated from employee responses.
2. Other stores with significant public transportation options were assumed to have the same carbon output per employee as Seattle. These include: Berkeley, Portland, Boston, San Francisco, and Pittsburgh.
3. All remaining retail stores were considered to have similar commuting patterns to the Sumner distribution center. In 2007, a distance comparison was done between the average commute to the Sumner distribution center and retail stores. Store commutes were found to be shorter, so carbon emissions were adjusted downward accordingly. Secondly, part-time store employees, on average, work 3.5 days per week compared to 4.1 days per week for part-timers at the distribution center. Again, carbon emissions were adjusted downward to reflect this difference.

While REI has done its best to use the measured data to reflect employee commutes accurately, estimates do not replace direct measurement of employees, and we are working to directly gather employee commuting data to provide more robust business intelligence for REI.

Miscellaneous

A small portion of REI's climate footprint comes from small, but meaningful sources. Miscellaneous emissions include the climate impacts of diesel fuel burned in generators, fuel for fleet vehicles, and the leakage of refrigerants from our heating, ventilation & cooling (HVAC) systems for our facilities where we control maintenance. These are tracked through invoices, vehicle logs, and bills.

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Renewable Energy Specification

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.

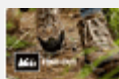
Financial

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.

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Paper Policy

Defining Paper and Fiber 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 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 followed through each step of the supply chain back to the source. In addition, this chain of documentation is 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.

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

Definitions:

Undesirable: Paper and wood fiber that is the product of illegal logging or is obtained from controversial sources in areas that:

- Contribute to human rights violations;
- Drive armed conflict from timber operations;
- Actively convert natural forests to plantations or non-forest uses, or;
- 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.

REI Paper Policy

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:

1. **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.
2. **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.
3. **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.
4. **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 Paper Assessment Tool (EPAT) will facilitate

our ability to measure and compare supplier performance.

5. 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.

6. 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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Waste Methodology

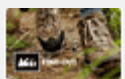
REI counts waste-to-landfill from all of our owned and leased facilities, including waste generated in regular operations as well as waste from one-time / one-off projects such as new store construction and major remodels. In our largest facilities, we pay for waste-to-landfill based on its weight, which allows us to simply track our progress. However, for the majority of our facilities (our retail stores), our waste is not measured by weight. Our dumpsters are picked up whether they are full or empty.

In previous years, we used a detailed survey to estimate how full these dumpsters were across our many locations. This methodology, though relatively accurate, highlighted the challenges of the long-term use of this methodology to track our progress to our zero-waste aspiration. We see the simplest way of measuring our progress towards our aspiration as measuring the number of dumpsters we pay to dispose of, and we have updated our metrics for 2010 to reflect this direction.

We quantify waste in tons, using direct weights (from compactors, etc.) when possible, and industry density estimates when not. For standard "roll-off" dumpsters picked up on a regular schedule at our retail stores, and sometimes at our support facilities, we count the dumpster as full in volume regardless of its actual fill percentage, and then we convert this volume to tons using a standard density conversion. We also count the occasional additional pick-up that our stores call for at times of heavy volume.

This new methodology over-reports our actual waste-to-landfill for 2010 compared to previous years, but gives us a clear, simple methodology that aligns our reductions in waste with direct expense savings from reducing our landfill service. This change in methodology accounts for the reported increase in waste to landfill and the decrease in our overall diversion rate for 2010.

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In this section, we highlight the co-op's initiatives and programs that make REI a nationally recognized top employer. These programs include [employee benefits, engagement and retention](#), and [diversity and inclusion efforts](#). We also discuss our contracted manufacturing operations through [factory and labor compliance](#).

Every day, REI's nearly 10,000 employees represent the co-op's brand, culture and values through their interactions with our members, customers, community partners and the natural world. Their passion for stewardship, knowledge of our products and services, and commitment to customer service help make REI a recognized leader in the outdoor industry.

Our commitment to provide a meaningful, fun and fulfilling workplace has helped make REI one of [Fortune magazine's "100 Best Companies to Work For"](#) for 14 years in a row. While this recognition is an indication of our employee's satisfaction, we strive each day to maintain our [strong culture](#) and high employee engagement so that the co-op remains an employer of choice.

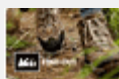
We also work hard to have those who make REI-brand gear and apparel a safe, fair and non-discriminatory workplace that comply with REI's Code of Conduct. In support of this we partner with our industry peers through the Outdoor Industry Association's Fair Labor Working Group to raise awareness of factory compliance issues.

Comments

We welcome your thoughts on our 2010 stewardship report through the following survey or via email at stewardship@rei.com. Your feedback supports our ongoing goal of providing relevant information that is important to our members, customers, partners, employees and others.

Our commitment to provide a meaningful, fun and fulfilling workplace has helped make REI one of Fortune magazine's "100 Best Companies to Work For" for 14 years in a row.

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



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Employee Engagement & Retention

REI's co-op roots are the foundation for the unique workplace we've cultivated in our more than 70 years in business. Employees thrive in an open, collaborative work environment. When employees can see the results of their work and reap the rewards of success, they get and stay engaged in our business.

It's important to the co-op to make sure that employees continue to be engaged. At REI, we define engaged employees as those who:

- Demonstrate pride and enthusiasm in their work
- Believe in and contribute to our shared values and goals
- Go above and beyond to help the co-op be successful
- Intend to stay with us

Measuring these behaviors through our annual Employee Engagement Survey is a key way we monitor our success in this area.

RESULTS

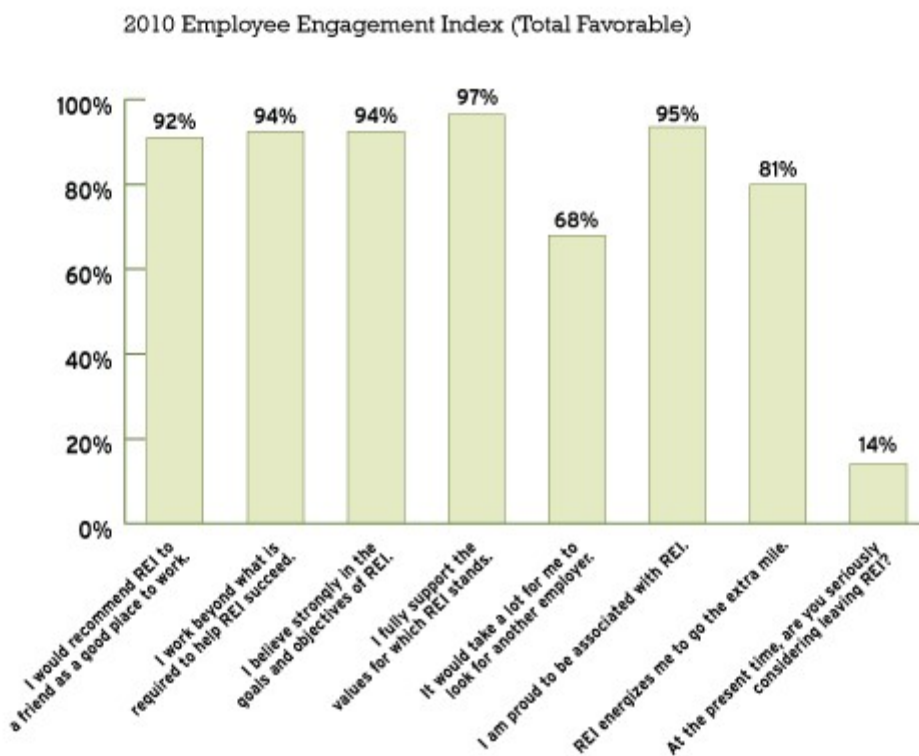
Employee Engagement Survey

Our annual Employee Engagement Survey, conducted by an independent firm, tracks key engagement indicators and provides comparison results from our business peers.

The survey is made available to every employee. It's completed anonymously and asks for employee feedback on key topics, including commitment, pride and loyalty, satisfaction with REI's benefits package, operational and leadership effectiveness and communication.

Here are some highlights from the survey:

- While REI has historically had an impressive employee survey participation rate, 2010's response rate for our employee survey was the co-op's highest ever at 86 percent.
- The 2010 survey results showed that 87 percent of our employees are engaged. This engagement rate is calculated by looking at the favorability rating in eight key areas that make up our employee engagement index, shown below:



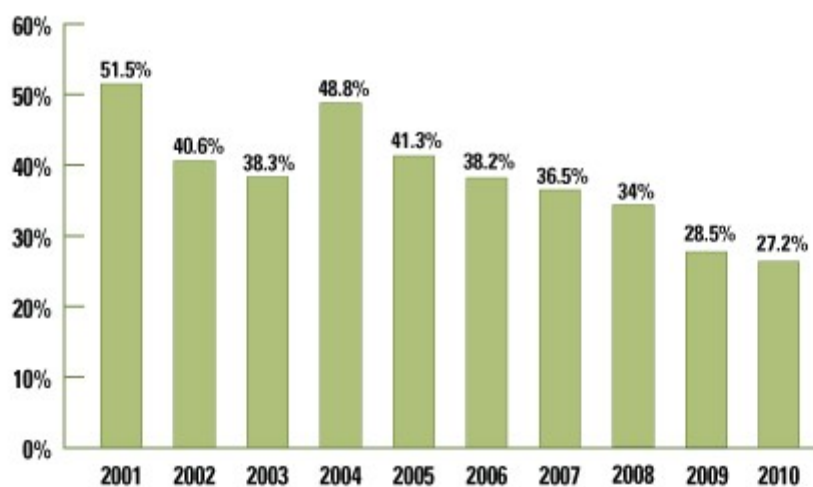
- Our overall engagement rate of 87 percent is high compared to both the U.S. retail industry norm (80 percent) and "global high performing companies" norm (82 percent). In the survey, high-performing companies are defined as companies with above-industry-averages on return on invested capital, net profit, and employee engagement scores.
- On a more detailed level, REI continued to outperform the U.S. retail industry in all survey categories, and outperformed global high performing companies in most categories.

Turnover and Retention

The effects of the challenging economy, high national unemployment and limited job growth, coupled with our strong employment offer and high employee engagement, continue to result in strong employee retention at REI.

- In 2010, REI overall turnover was 27.2 percent, a 1.3 percent drop from 2009 and an all-time low for the co-op. It's also well below the average retail industry rate of 51 percent. (Our annual turnover percentage rate is measured by dividing terminations, voluntary and involuntary, in a particular year by average headcount across all months of that year.)

Overall Company Turnover*



*Annual turnover percentage rate is calculated by dividing terminations (voluntary and involuntary) in a particular year by average headcount across all months of that year.

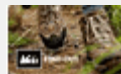
- Our 2010 retention rate was 79 percent, as compared to 75 percent in 2009. (Employee retention is calculated using the percentage of new hires from a particular year that are still employed at year-end.) On our Employee Engagement Survey, the percentage of employees with intent to stay at REI continues to rise as well.

LOOKING AHEAD

As we look to the coming years, the co-op is focused on growth – in a way that gives back to our members, communities and employees. This will require REI to continue to engage and retain the very best employees, who will help drive our success in the years to come.

We will do this by making sure employees recognize how their individual contributions support REI's mission and success, maintaining open lines of communication, fostering genuine dialogue and responding to employee concerns.

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Diversity & Inclusion

For many years, REI has been working to create a more welcoming, inclusive environment for everyone in the outdoors and to ensure our retail stores and offices reflect the diversity of the communities we serve.

We believe diversity and inclusion is a business imperative needed to realize our aspiration to serve our members and customers 100 years and beyond. It also serves as a strategy for attracting and engaging the best talent.

The co-op has aligned its strategy around three primary initiatives:

The **Diversity in the Outdoors** initiative is focused on increasing outdoor participation across diverse communities of color.

The **Employee Diversity** initiative is designed to attract, develop, promote and retain a workforce that reflects our community.

The work of the **Inclusion** initiative is the work of all REI employees. That is, creating a workplace environment and customer experience that is welcoming and respectful of all people.

RESULTS

Our work to bring greater diversity to the places where we work and recreate is designed to help bring us closer to reaching our vision statement, which was developed during 2010: *REI is a courageous, culturally competent organization where diversity and inclusion are woven into the fabric of our company, driving superior business results and a sustainable competitive advantage.*

This vision is supported by shared ownership and accountability across all divisions at REI. A significant leap forward in attaining our vision was the creation of a director-level position to provide oversight and dedicated resources. In addition, this leader will identify long-term success measures that help ensure focus, alignment and strategic direction.

Through our **Diversity in the Outdoors** efforts, we supported partner organizations in diverse communities with [REI Foundation](#) grants totaling more than \$200,000. Grants were awarded to the National Audubon, National Wildlife Federation, Ocean Discovery Institute, Outdoor Outreach, Outdoor Foundation, WILD Coast, BRAG Dream Team, Inc., East Atlanta Kids Club, Inc., Greening Youth Foundation and the YMCA of San Diego County.

With REI's help and involvement, our nonprofit partners created life-changing opportunities for diverse youth. In many cases, these young people enjoyed the joys of the outdoors for the first time in their lives.

To reach even younger children, we distributed thousands of the Spanish-language version of our Family Adventure Journal postcard in 2010 for use by retail store teams. The Family Adventure program encourages families to enjoy the outdoors together and provides information about family-friendly hikes and bike trails in local communities.

Employee Diversity

Within REI's operations, our hiring managers focus their efforts on networking with groups that advocate for and support diverse communities. As a result of this work, REI has established relationships with nearly 190 organizations across the country. This network helps us have a diverse candidate pool as we recruit new employees.

When new stores open, REI does active outreach with community groups in the area, rather than waiting for people to apply. For example, when recruiting for employees for our new store in Norwalk, Conn. in 2010, we worked with NEON (Norwalk Economic Opportunity Now, Inc.), a local non profit that provides community development and emergency assistance services to economically disadvantaged people in the area. Their job placement and workforce development team helped us recruit and screen candidates, as well as provide an in-depth analysis of each candidate's strengths and opportunities. As a result of our partnership with NEON, we hired a workforce that is more than 30 percent racially diverse.

Inclusion

In addition to very high [engagement](#) scores obtained through our internal annual employee survey, REI continues to be recognized for its engaged workforce and culture of inclusion. In 2010, we once again received the highest possible ranking of 100 points on the [Human Rights Campaign's](#) "Corporate Equality Index." This annual survey scores U.S. companies on how they treat their gay, lesbian, bisexual and transgender employees, customers and vendors.

In 2010, REI partnered with an outside firm to provide inclusion training for all managers and leaders at our headquarters. In a "train the trainer" format, we will extend that training to our retail management teams in 2011, who will in turn train our retail employees.

We recognize that we have a long journey ahead to become truly reflective of the communities we serve. We are still learning the most effective ways to engage with diverse communities to create long-term, mutually beneficial relationships.

Employee Demographics

	2007 Employee Count	2007 Percentages	2008 Employee Count	2008 Percentages	2009 Employee Count	2009 Percentages	2010 Employee Count	2010 Percentages
Status								
Full Time	3,543	35.0%	3,720	36.6%	3,410	36.1%	3,623	36.3%
Part Time	6,580	65.0%	6,450	63.4%	6,023	63.9%	6,359	63.7%
Gender								
Female	4,164	41.1%	4,317	42.4%	4,043	42.9%	4,343	43.5%
Male	5,959	58.9%	5,853	57.6%	5,390	57.1%	5,639	56.5%
Ethnic Identity*								
Black or African American	190	1.9%	200	2.0%	173	1.8%	180	1.8%
White	8,849	87.4%	8,886	87.4%	8,211	87.0%	8,629	86.4%
Asian	555	5.5%	550	5.4%	513	5.4%	497	5.0%
Hispanic or Latino	376	3.7%	421	4.1%	386	4.1%	452	4.5%
American Indian / Alaska Native	76	0.8%	67	0.7%	61	0.6%	55	0.6%
Native Hawaiian / Pacific Islander	9	0.1%	6	0.1%	13	0.1%	28	0.3%
Two or More Races	68	0.7%	40	0.4%	76	0.8%	141	1.4%

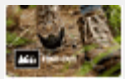
*Ethnic categories have been updated per federally mandated EEOC (equal employment opportunity commission), classifications.

LOOKING AHEAD

The work, vision and successes of the three Diversity Initiative Teams have evolved the overall strategic planning process for REI as a whole and have produced a five-year strategic plan for Diversity and Inclusion. This plan was the culmination of cross divisional work across the co-op through much of 2010 and represents the next step in our journey. The plan centers on three core strategic objectives – Customers, Employees and Partnerships. Included in the roadmap are initiatives to establish a supplier diversity program and a customer segmentation effort to engage with existing diverse populations who are currently recreating in the outdoors.

We plan to bring our first-ever director of diversity to the co-op in 2011. In concert with their colleagues across the company, this leader will direct the overall growth and integration of diversity and inclusion across all business disciplines, align business needs with smart strategies, establish baseline metrics, drive leader accountability and deliver tools to the retail store teams. With the addition of this new role, we expect to make significant, long-term progress and demonstrate our commitment and intention to our members, our communities and our employees.

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Employee Pay and Benefits

One important way we embody our values is by serving and supporting our employees through programs that allow them to flourish and do their best. We offer a variety of benefits and perks that show our respect for our employees and their families. Highlighted below are several benefits that are remarkable in our industry. For a complete overview of the employee benefits program, visit REI.com/jobs.

PATH PLAN HEALTH CARE COVERAGE

We believe it's important to offer all employees health care benefits they can afford. Part-time employees who work fewer than 20 hours per week (and who aren't eligible for our Flex Plan benefits) can enroll in health care coverage through our PaTH program.

- REI pays 100 percent of life insurance coverage and 60 percent of the premium cost for employee-only medical coverage through PaTH. Optional dental coverage is also available.
- PaTH is exceptional in the retail industry. Most retailers do not subsidize coverage for their part-time employees. And, our employees clearly appreciate this benefit — more than 25 percent of eligible employees participate in PaTH medical coverage; the industry average for this type of plan is 10 percent.
- As more employees retain eligibility for our full time Flex benefits, enrollment in PaTH declined, but 952 employees were enrolled in the PaTH Plan at the end of 2010.

Flex Plan Health Care Coverage

Full-time and eligible part-time employees (working more than 20 hours per week) get a variety of medical options through our Flex Plan. In 2010, we also made sure our health care benefits met requirements put in place through the Patient Protection and Affordable Care Act.

- Each Flex Plan option covers core services (like preventive care) for employees at no cost to them. We also cover up to 85 percent of the premium for employee-only medical and dental coverage, which is considerably higher than what most retailers offer.
- Over 5,000 employees were enrolled in the Flex Plan at the close of 2010.

Tools for Wellness

Good health and well-being are attributes everyone hopes to enjoy throughout their lifetime, but we know good health doesn't just happen. In 2010, we continued REI Health Quest, a points-based wellness incentive program that helps employees focus on personal health management. All employees, regardless of status, can participate in this program.

- The cornerstone of the Health Quest program is self awareness via an online well-being assessment. Employees who take this 15-minute questionnaire receive a snapshot of their current well-being, health status and risks, as well as health tips and areas to focus on or improve.
- To encourage employees to take the self-assessment, we offer Flex Plan-eligible employees \$250 in Healthy Lifestyle Dollars during open enrollment that they can apply toward their benefit costs. When employees complete health and stewardship activities throughout the year, they rack up points. Once they reach a milestone level, they're rewarded with a drawing for prizes, discounts and more.

Managing Absence

In 2010, REI implemented initial phases of a comprehensive health and absence management strategy, including:

- Enhanced short-term disability and salary continuation benefit for all staff
- Consolidated leave and disability management with our existing vendor and integrated with national workers' compensation administrator
- Introduced a centralized health resource, REI Health Guide, for intake and reporting of all leaves of absence as well as coordination with other health management resources
- Standardized the process for return-to-work for employees with an injury or disability

Because of this strategy, the co-op saw a 2 percent increase in health benefit expense for 2010 (per employee per year), the lowest incremental increase in several years.

Saving for Retirement

Eligible employees share in the co-op's financial success through our industry-leading REI Retirement and Profit Sharing Plan.

- In early 2011, REI funded over \$26.4 million in contributions for the year closing in 2010.
- Over 5,000 employees received a guaranteed 5 percent company retirement contribution plus the full discretionary 10 percent in a profit-sharing contribution from REI, for a total of 15 percent. This amount far exceeds the retail industry norm of three percent.

All employees may contribute their own pay to REI's Retirement and Profit Sharing Plan as well as take advantage of retirement planning and investment advice from our retirement plan administrator.

Incentives for Performance

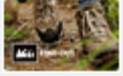
Employees receive Xcels Annual Incentive Plan awards based on how well the co-op performs overall and how each division or store performs. Individual employee performance also factors into how much employees receive each year.

As a result of outstanding performance in 2010, 100 percent of eligible employees received a payout under the Xcels Plan. The total employee payout was \$33 million.

LOOKING AHEAD

Our focus on providing employees comprehensive benefits hasn't wavered, even in a lagging economy. We continually look for ways to improve our benefit package to make sure it's relevant to employee needs.

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Fair Labor

The gear and apparel we sell comes from sources around the world. At REI we expect workers in the global supply chain to experience safe, fair, and non-discriminatory working conditions. Because relying solely on local laws and enforcement may not be enough to achieve this goal, REI introduced a factory Code of Conduct in 1993. The code establishes standards of workplace conduct for the factories that produce products we sell, both our own REI-brand products (REI and Novara) and the products of other brands.

In 2006, we began a partnership with the Outdoor Industry Association (OIA) to develop, publish and maintain the Fair Labor Toolkit. In 2009, we joined the Fair Factories Clearinghouse (FFC) to promote and participate in deeper collaboration across several industries.

RESULTS

REI -Brand Gear & Apparel

In 2009, REI's board of directors commissioned an external audit of the co-op's Fair Labor Compliance Program (FLCP). While not identifying any material deficiencies in the program, the audit firm recommended improvements in the reporting and governance of the compliance function. Specifically, the firm cited industry best practice and recommended more direct oversight and reporting to senior leadership and the board of directors. Additional audit recommendations were to allocate more resources (staff and budget) to factory oversight, increase industry collaboration, and improve supply chain visibility.

These independent recommendations informed our work in 2010 of reorganizing the FLCP. REI's senior leadership established a small group to review the audit recommendations and propose responsive action. The outcomes were several: first, the co-op created a management oversight committee called the Fair Labor Oversight Committee (FLOC). This group is chaired by an executive vice president and includes REI's general counsel and two vice presidents. The FLOC is accountable directly to the Audit & Finance Committee of the board and is responsible for objective oversight and assessment of the fair labor compliance program.

Second, the co-op recruited and hired an experienced manager to lead the FLCP. Moreover, to provide independence from the business unit, the manager's reporting relationship moved from the business (REI Gear & Apparel division) to REI's Legal department. The manager and her staff now have a direct reporting line to the board of directors both through the FLOC and the general counsel's office.

Third, the FLOC created and implemented a new policy and procedure for prompt escalation to the FLOC of egregious fair labor violations by factories. Although in REI's long history with contracted factories an egregious fair labor violation has never been reported, this new procedure and the FLOC's oversight assure swift, decisive action if one were to occur. The escalation policy requires factories to take corrective action, and, if acceptable action is not taken within a reasonable time frame, REI will immediately cease doing business with the factory. Throughout the process, the FLCP team collaborates with staff in the REI Gear & Apparel sourcing team and with the FLOC to ensure that a thoughtful decision is reached.

Factory Monitoring

In 2010, REI scheduled five audits by third-party auditors of factories within China, Taiwan, and El Salvador that produce REI-brand products. While REI completed fewer direct audits than in previous years, the complete audit plan was augmented by shared audits conducted by other brands, as discussed below. This approach in 2010 of combining direct audits with shared audits was a strategic decision by the newly-formed FLOC to allow time and resources to focus on the hiring and on-boarding of new staff and implementation of the changes to the compliance program.

The results of our factory audits are largely in line with those reported in previous years. Similar levels and types of violations were detected and corrective action processes have been followed. As we have noted in our report in previous years, this traditional audit effort keeps us informed of factory activity and performance but does not promote transformational change in the supply chain.

Collaboration Update

In 2009, we reported that we intended to move toward deeper engagement with factories while simultaneously working with other brands to address systemic change in the supply chain. A major step along this road was REI joining the Fair Factories Clearinghouse (FFC). In 2010, our participation in FFC resulted in eight shared audits where REI accepted the results of factory visits by other brands. By sharing factory audit results we increased visibility into the factories while reducing the "audit fatigue" experienced by the factories.

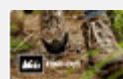
LOOKING AHEAD

Significant economic shifts in worldwide markets for commodities and materials and major changes in the Chinese labor market (now, widely publicized) have added a new set of challenges to factory labor compliance. Labor shortages in China have had both positive and negative influences on the situation. For example, increased competition for labor has caused factories to emphasize employee retention, which gives workers more power in negotiations over pay, benefits, and working conditions. On the other hand, factories are moving further into the interior of China, or in some cases to other countries, where labor oversight by both government officials and brands can be difficult. The full ramifications are not yet evident, but we are increasing our presence in factories as our first line of engagement.

A more visible presence leads to better collaboration, faster time to market, better quality control, and better insight into actual health, safety and labor relations issues. To further our direct engagement with factories, we are in the process of establishing REI's first full-time physical representation in China, through an office staffed by quality assurance specialists. This office, which should be fully operational by mid-year 2011, will play a vital role in our increased engagement with our contracted factories.

As we evolve and expand our FLCP, we will continue an emphasis on developing and maintaining effective working relationships with factories and other brands. We believe one outcome of this focus will be change in the supply chain that benefits factory workers, change that takes the shape of factories committing to and delivering continuous improvement in worker pay, work conditions, and life balance. We look forward to reporting our progress in 2011.

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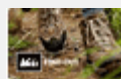
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