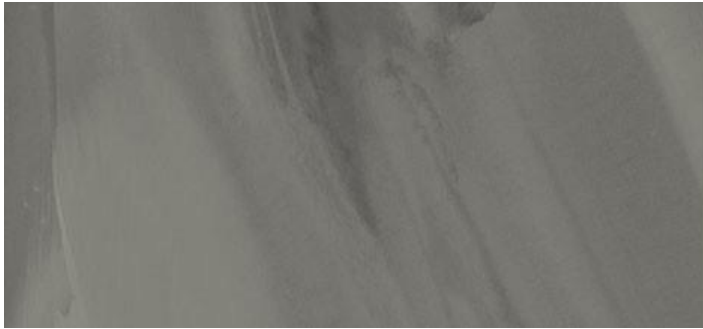


2012 STEWARDSHIP REPORT



Stewardship is how we act on our love for the outdoors. Every day, our employees “inspire, educate and outfit” others for a lifetime of outdoor adventure and embrace the co-op’s stewardship ethos as the way we do business.

Now in its seventh year, our annual stewardship report is published to be transparent in our actions and to hold ourselves accountable with employees, members, customers and others.

The report measures our progress to operate a sustainable business. It also tracks broader efforts to partner with local and national nonprofits to help support natural spaces, collaborate with our industry peers to address the environmental footprint of our product, and use the lens of social and environmental responsibility to make informed decisions in how we run our company.

We invite you to read our report, which outlines the co-op's successes and opportunities during the 2012 calendar year. The content is structured into the four sections—[Community](#), [Sustainable Operations](#), [Product Stewardship](#) and [Workplace](#). A [table of contents](#) is also provided for quick reference.

2012 STEWARDSHIP REPORT

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About the Report

Defining Stewardship

REI's purpose is to inspire, educate and outfit for a lifetime of outdoor adventure and stewardship. At the co-op, being a good steward 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 and the places in which we work through responsible business practices
- Foster opportunities for outdoor recreation, with a focus on young people
- Maintain REI as an employer of choice, where employees are highly engaged and reflect the diversity of our communities

Why We Report

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

REI's seventh stewardship report covers the co-op's activities and performance related to these areas during the 2012 calendar year. The performance metrics and data contained within this online report include our operations, facilities (headquarters, distribution centers and retail locations), some aspects of supply chain manufacturing, and adventure travel.

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

Report Structure

REI's 2012 stewardship report is organized into the four content sections: Community–philanthropic efforts and nonprofit partnerships centered on conservation, volunteerism and advocacy; Sustainable Operations–initiatives and efforts to reduce our overall impact on the planet; Workplace–the co-op's workplace priorities and policies, as well as fair labor

compliance with vendor factory partners; and Product Stewardship—products stewardship and industry involvement. 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 2012 stewardship report, we built on the foundation we established in our first six reports. The scope of our reporting is for calendar year 2012, 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 business objectives and long-term strategic plans also served as a basis for determining relevancy, as did co-op policies, programs and initiatives.

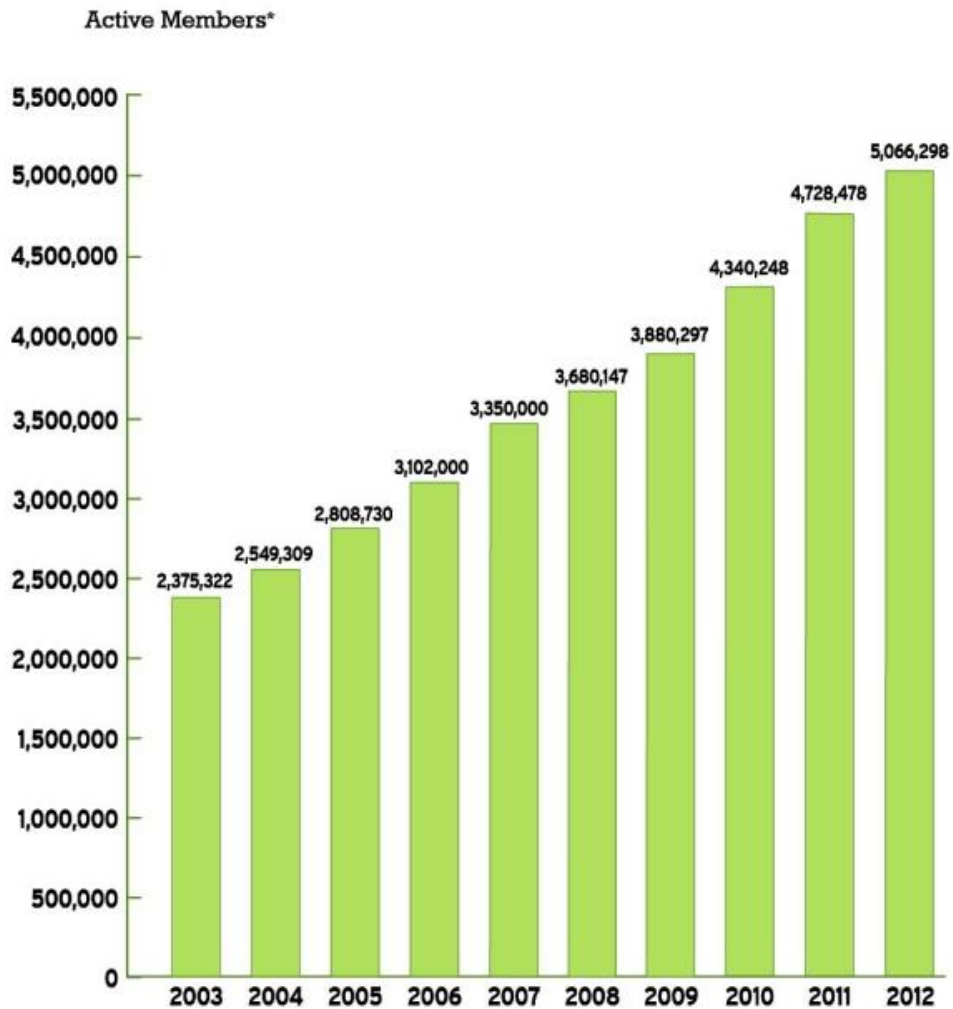
All past REI stewardship reports are archived and maintained with open access for future reference, and complement additional information presented on REI.com/stewardship.

Comments

We welcome your thoughts on our 2012 stewardship 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.

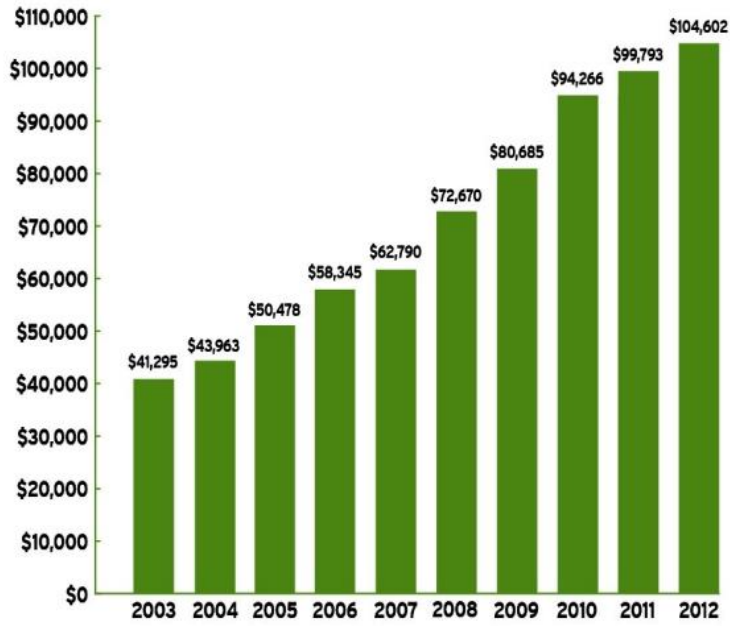
Quick Facts About REI

Each year, the co-op publishes its audited financials at <http://www.rei.com/about-rei/financial-information.html>.

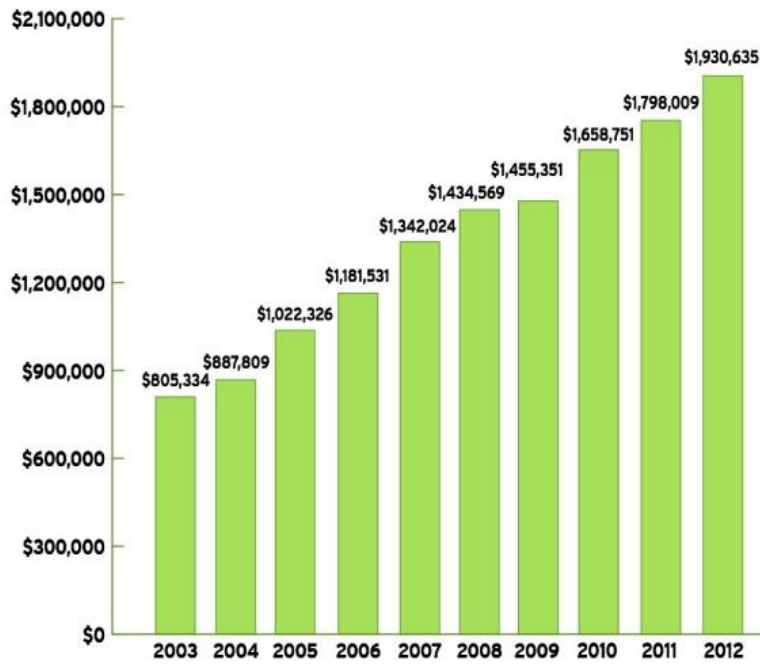


* According to REI's bylaws, an active member is someone who made net merchandise or shipping purchases of at least \$10 per year, or joined the co-op that year.

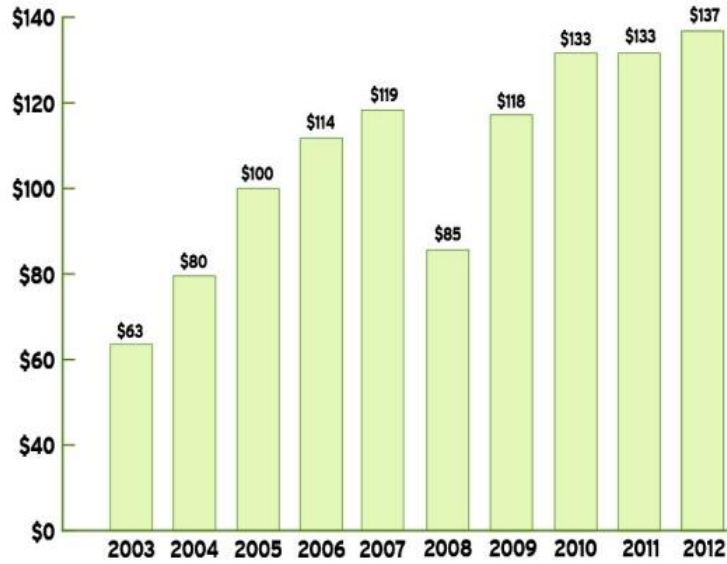
Member Patronage Dividends (in thousands)



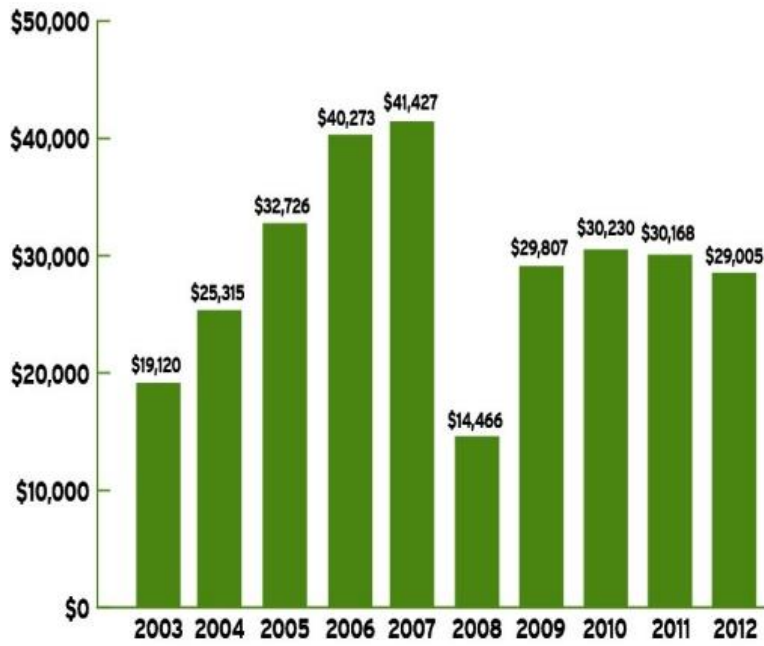
Sales (in thousands)



Operating Profit (in millions)



Net Income (in thousands)



Infographic



A COMMUNITY OF STEWARDS

At REI, we share a mutual appreciation for the outdoors with you. Here are some actions we took in 2012 to help ensure there will be natural spaces for generations to come.

LOWERING OUR IMPACT

As we grew by 7.4%, we:

REDUCED:



Operational CO₂ by
7.6%



Landfill waste by
53 tons

POWERED:



24% of our retail electricity using renewable resources, including



7% of our retail electricity through our own solar panels

BEYOND OUR WALLS

We donated **\$4 million** to hundreds of nonprofits around the country.

This support contributed to nearly **2.9 million hours** of sweat equity, enabling:



Maintenance of
54,000 miles
of trails



Restoration of
94,000 acres
of land

Since 1976, REI has given over **\$41 million** to nonprofit organizations



Go to www.rei.com/stewardship/community and learn about the nonprofits in your community

SMALL CHANGES, BIG RESULTS



11 million hangtags for REI and Novara apparel are made with...

- **100%** Forest Stewardship Council-certified post-consumer recycled fiber, and
- Printed in a mill that uses **100%** renewable electricity



Novara bike tube packaging is made with compostable plastic made from **100% renewable plant resources**

- The design change reduced **98% of packaging**; that's over **3,000 pounds of material**
- Improved design means coiled tubes are easy to store on your bike or in your bag

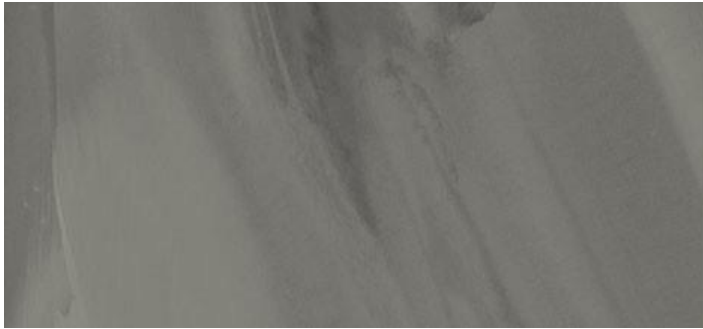


Retrofitting the data center at REI headquarters:

- Saves enough energy to power **5 REI stores**
- Avoids using air conditioning **99%** of the time
- Reduces cooling energy use by **93%**

Want to learn more? Visit <http://www.rei.com/stewardship/report>

2012 STEWARDSHIP REPORT



REI in the Community

In our local communities, we focus on making meaningful, lasting contributions where we live, work and play.

Through collaboration local and national nonprofits and outdoor programs, we care for outdoor places that our members love and encourage those in our communities to live healthy, active lifestyles. At REI, our actions to preserve and protect natural spaces are called “stewardship,” and we want to inspire others to join us in our efforts.

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

Find out more information about our community relations strategy and examples of how we work with nonprofit partners [here](#).

Comments

We welcome your thoughts on our 2012 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.

Giving Philosophy

Since 1976, REI has provided more than \$41 million to nonprofit organizations that share our goal to protect and preserve our country's natural spaces and to get more people into the outdoors.

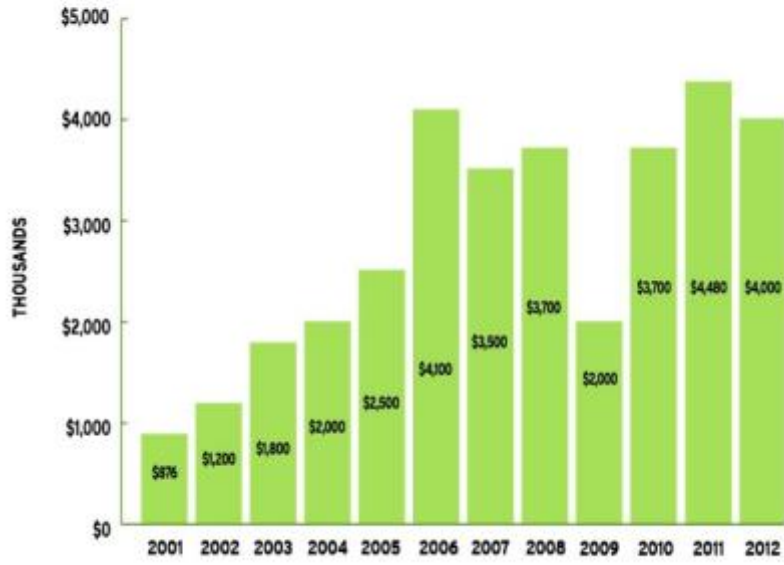
In 2012, \$4 million was given to more than 300 local and national groups that take care of parks, trails, rivers, crags, waterways and beaches. For a list of local and national grants made to conservation nonprofits, [click here](#).

REI's corporate grants program is a community-based approach led by our retail stores that nominate local partner nonprofits. Each grant proposal is evaluated in the context of REI's funding priorities and criteria that involve evaluation of impact, engagement and accountability.

At regional and national levels, REI also supports stewardship outdoor causes that align with our specialty shop activities and REI leaders give their time and talent to nonprofit boards related to the outdoors.

In addition to helping to care for outdoor recreational places, REI actively partners with the Red Cross to support disaster relief efforts in communities around the world. In 2012, we provided \$100,000 to the Red Cross for Hurricane Sandy relief efforts. So that employees could help make a difference, we partnered with New York Cares and Jersey Cares to provide nearly 1,000 warm coats to help those who lost so much in the hurricane's devastation.

Annual Giving Budget



Volunteerism

Our grants program funds and supports volunteer programs that are dedicated to caring for outdoor recreational destinations and resources. From building trails to maintaining local parks, our members and customers value these public treasures and we believe the co-op has a role in helping to preserve and protect wonderful outdoor places.

To do this, we made more than 300 grants totaling \$4 million primarily to national and local nonprofits in 2012 that are committed to outdoor conservation efforts. Beyond grants to the nonprofits that have the ability to organize and create outreach events, we also mobilized people and families in active outdoor stewardship by hosting REI volunteer activities and events.

All REI stores across the country develop meaningful relationships with local nonprofits and actively partner in conservation projects. Watch outdoor enthusiasts in New York City and San Francisco explain why volunteering for “the love of outside” results in a powerful and rewarding experience for all involved.

Efforts supported by company direct action and grants led to the following results:

- 396,000 volunteers cared for natural places
- 54,000 miles of trail were maintained and 94,000 acres of land were restored
- 2.9 million volunteer hours were dedicated to working on trails, parks, and waterways

In addition, results for REI-promoted and sponsored efforts included:

- 856 volunteer conservation projects involving 97,119 volunteers
- 383,357 volunteer hours spent on conservation projects

The REI Foundation

The REI Foundation focuses on getting more young people into nature, with an emphasis on connecting youth of diverse backgrounds. Through this work, The REI Foundation's goal is to help create the next generation of outdoor enthusiasts and environmental stewards. The REI Foundation researches and invites grant proposals connected to its mission; it does not accept unsolicited proposals.

The REI Foundation is a private corporate foundation funded and operated by REI. In 2012, The Foundation added a new board seat for a member of the REI board of directors. As a separate nonprofit entity, The Foundation files a federal 990 disclosure each year which details expenses, grant making and other operating details. The 2011 990 disclosure is the most recent and is available [here](#).

You can learn more about The REI Foundation at the [REI in the Community](#) pages of our website.

In 2012, The REI Foundation gave grants totaling \$275,000 to the following nonprofit organizations:

[Outdoor Foundation](#) – \$100,000. The Outdoor Foundation is the nonprofit established by Outdoor Industry Association to inspire and grow future generations of outdoor enthusiasts. The REI Foundation's contribution will, in part, support youth Summits throughout the country in 2013. The grant is a continuation of support for Outdoor Nation (ON) made at the end of 2011, which allowed the organization to hold three "Signature Youth Summits" in Los Angeles, Austin and Boston in 2012. In addition, the funds supported five intensive training summits in New York City, Atlanta, Minneapolis, Denver and San Francisco providing youth leaders with skills to support and launch community-based programs to engage youth in the outdoors. Lastly, The REI Foundation helped to support a National Youth Congress in Washington, D.C. The combined summits brought together more than 1,600 youth leaders. A small grant program underwritten by Outdoor Nation supporters also provided seed funding for youth working on community-based projects.

[Children & Nature Network](#) - \$75,000. The REI Foundation made a grant in support of the Children & Nature Networks Natural Leaders Network Legacy Initiative. The initiative equips young, diverse, community leaders with outings skills and community leadership training to effectively move their communities outside in nature, for the health and well-being of children, their families, their communities and nature itself. The REI Foundation grant helped support the Natural Leaders Legacy Camp in the fall of 2012, which brought youth leaders from 30 communities and three countries (Puerto Rico, Australia, and Canada)

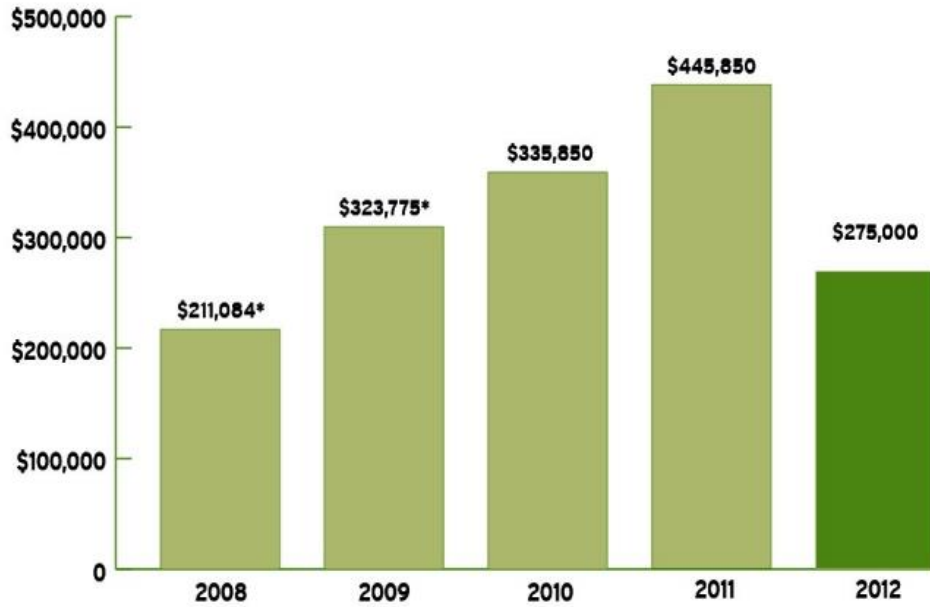
together to learn how to be leaders in their communities for the cause of connecting youth people to nature. In addition to training and mentoring, youth leaders accepted into the camp agreed to conduct a set of activities upon returning to their home communities to connect young people to the outdoors.

[The YMCA of the USA](#) - \$50,000. In support of the YMCA's efforts to grow and replicate their Boys/Girls Outdoor Leadership Development (BOLD/GOLD) program, The REI Foundation is making a three-year funding commitment of \$50,000 per year. In 2012, the organization built organizational support and capacity to prepare for expanding the program.

[The Mountaineers](#) – \$50,000. The Seattle Mountaineers received a Mary Anderson Legacy Grant, an annual recognition of a nonprofit that actively engages young people in learning about nature through hands-on engagement and discovery of the outdoors. The funding will continue the work begun in 2011 in The Mountaineers' Youth and Family Initiative, which includes a suite of youth offerings to bring more young people from the Puget Sound to enjoy the outdoors, The grant is named after REI co-founder Mary Anderson and is given annually to a group working to connect young people to nature.

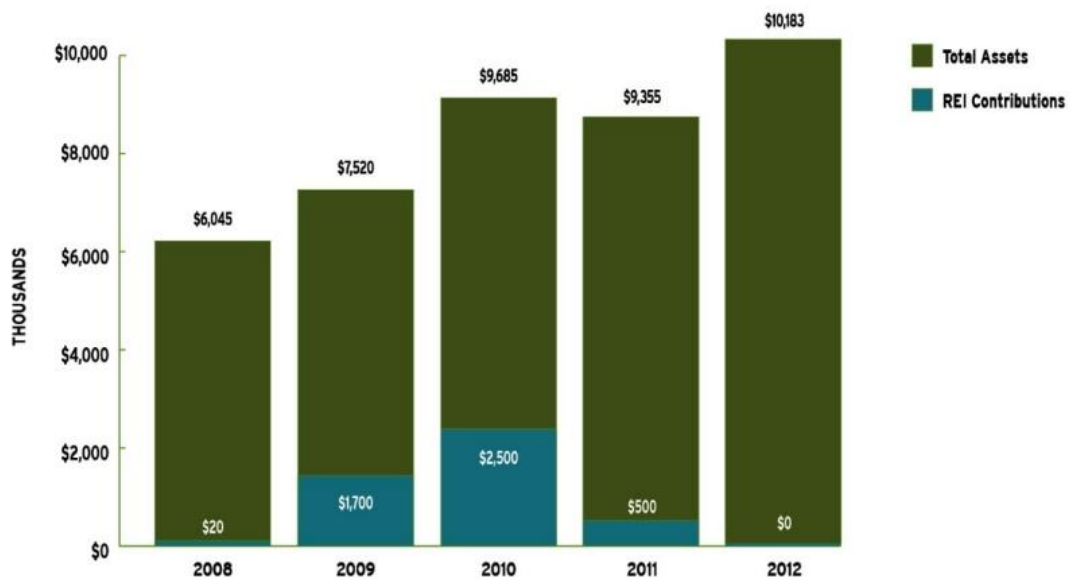
Additionally, in 2012, the first year of support of Latino USA's "RadioNature" feature program concluded. Underwritten by The REI Foundation, and produced by the nonprofit Futuro Media Group, RadioNature produced 16 diverse segments in 2011 and 2012 that reported on the relationship that the Latino community and individuals enjoy with nature and its stewardship. In addition to the program segments, a joint clean-up of the Bronx River brought together storytelling with hands on engagement in the outdoors. Latino USA is heard across the country on a large number of NPR stations.

The REI Foundation Grants



* Funding includes financial support of relief work efforts and memorial grants for employees

The REI Foundation Total Assets & REI Contributions



The REI Foundation's assets change annually based on contributions, grants and fluctuations in investment values.

Advocacy for the Outdoors and for the Outdoor Recreation Economy

REI selectively engages in public policy dialogues that support the pursuit of our core purpose and that allow us to stay competitive in a rapidly evolving marketplace.

These generally speaking fall into two categories. First, they include issues that affect public access to and enjoyment of parks, trails, waterways and other natural places where people enjoy outdoor recreation. Here, we work with partners and government officials to ensure that as the public policy landscape evolves, our members, customers and employees are able to pursue the outdoor activities they enjoy. Second, we work on public policy matters that impact our daily business operations both directly and as part of the broader outdoor industry.

To accomplish this work, we operate a small government affairs program. The team relies on a full-time government affairs director, periodic engagement by senior REI staff and leaders, and the Monument Policy Group, a political and policy consultancy in Washington, D.C. We also belong to trade associations that have their own government affairs operations. We work actively with the Outdoor Industry Association (OIA) to advance the policy agenda for outdoor recreation, both with respect to public lands and operational issues. For issues that specifically affect retailers, we participate in some of the policy initiatives driven by the Retail Industry Leaders Association. And in Washington state, where we are headquartered, we are members of the Washington Retail Association.

We also regularly partner with non-profits, coalitions and other associations on different issues and in different venues depending on the topic. [The Outdoor Alliance](#) and [Bikes Belong](#) are just two examples of these types of organizations. The former represents a collaboration of leading national outdoor user groups that work to assure their access to unique climbing, kayaking, white water rafting and other adventurous places. Bikes Belong works on policies and supports programs that promote bicycling and make it both safer and a more viable mode of transportation.

Primary Initiatives

The bulk of REI's efforts in 2012 were focused on a handful of initiatives. Most policy initiatives take quite some time to play out given the push and pull of the democratic process. While we feel we continue to make headway, each of our major efforts remains a work in progress.

In terms of protecting parks, waterways and trails—and promoting greater access to them—we:

- *Advocated for bills and appropriations that sustain a variety of existing programs that, in turn, support the maintenance and development of parks, trails and recreational lands.* At the federal level, these include programs such as the [Land & Water Conservation Fund](#) and the [Recreational Trails Program](#). We also are supporting efforts to draw attention to the 2016 centennial of the National Parks System and the NPS's needs for its second century. In Washington state, we support, among other things, sustaining the legislature's investment in the [Washington Wildlife and Recreation Program](#), which provides critical funding for state and local parks, for trail construction and the like.
- *Partnered with government officials and industry colleagues to raise awareness of outdoor recreation's substantial economic benefits.* Most notable here, we and others in the outdoor recreation sector continued our work with the Western Governors Association (WGA) on the ["Get Out West!" campaign](#) aimed at attracting adventurers and travelers to the many wonderful outdoor experiences available in the western half of the country. With input from REI, the WGA also introduced in June 2012 a series of recommendations for how to better engage youth in outdoor activities and ways to strengthen tourism and the western economy. In parallel, we supported the OIA's update to its 2006 economic impact study. In 2012, OIA released new figures, describing how our sector contributes \$645 billion to national gross domestic product and supports more than 6 million jobs nationwide. The 2012 study is at <http://www.outdoorindustry.org/advocacy/recreation/resources.php>.

To assure REI's product development and retail operations remain competitive in a challenging marketplace, in 2012 we:

- *Worked with a broad coalition of retailers, shopping mall owners and other Main Street businesses seeking congressional action to close the so-called Internet sales tax loophole.* A bipartisan collection of senators and congressmen recognize that it is time to undo a decades' old Supreme Court decision that immunizes many online-only retailers from having to collect sales taxes. This gives online-only vendors an unfair pricing advantage if they are not required to collect sales tax that is owed from shoppers. Bills before Congress would level the playing field and at the same time help repair strained state budgets by allowing states to compel online-only retailers to collect and remit existing sales taxes. For more information about the Alliance for Main Street Fairness, visit <http://standwithmainstreet.com>.
- *Supported efforts by outdoor industry companies to reduce import tariffs on high-performance outerwear, where those tariffs raise costs on consumers and do not protect a domestic industry.* Many highly technical, modern-day articles of clothing,

including those that breathe and repel inclement weather, are not manufactured domestically, and yet these goods face extraordinarily high tariffs. This creates high product costs without benefit to U.S. consumers or industry. With OIA, we have been advocating for policy changes, such as via the [U.S. OUTDOOR Act](#), which would eliminate or substantially reduce those tariffs. With tariffs reduced, companies like REI would be able to deliver higher performing outerwear at even better prices. We also have lent support to broader efforts by the retail, apparel and outdoor industries to shape the U.S. government's position in negotiation of a Trans Pacific Partnership. TPP, if implemented properly, would reduce tariffs on an array of outdoor products not manufactured in the United States in any meaningful quantities.

Other Public Disclosures

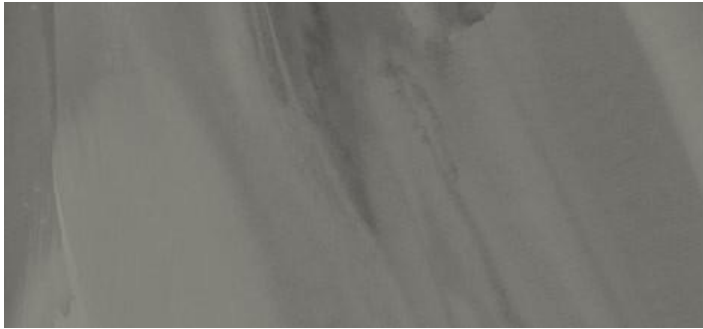
Federal and state laws require REI to file forms describing certain, more detailed aspects of our work on policy matters. These disclosures are updated on a regular basis. We believe the most useful tools for tracking the data are:

- http://www.senate.gov/legislative/Public_Disclosure/LDA_reports.htm (federal policy advocacy)
- <http://lobbyingdisclosure.house.gov/> (federal policy advocacy)
- <http://www.pdc.wa.gov/public/default.aspx> (policy advocacy in Washington state)

With respect to financing campaigns for public office, REI as a company makes no contributions either directly to candidates or indirectly via Super PACs. REI employees and executives may choose to make personal contributions to political campaigns. In addition, the OIA operates a political action committee, and eligible REI employees may make contributions to it. At both the federal and state levels, there are systems in place that capture and disclose information about campaign contributions. In our view, the best tools for tracking that data are:

- <http://www.opensecrets.org/indivs/index.php?ql3> (federal campaign contributions by individuals and PACs)
- <http://www.pdc.wa.gov/MvcQuerySystem/AdvancedSearch/Contributions> (contributions to Washington state campaigns by individuals and organizations)

2012 STEWARDSHIP REPORT



Sustainable Operations

From the gear and apparel we manufacture and sell to the services we offer through educational and adventure travel programming, REI's business relies on the availability and preservation of shared outdoor spaces. We are acutely aware that our business impacts the environment, which is why REI's commitment to sustainability is embedded in our operations across the company.

We take a comprehensive view of our environmental impact using a framework that reflects the work of the Outdoor Industry Association's Sustainability Working Group and apply it to our operational footprint. From this complete view, we have chosen to establish key performance metrics for [greenhouse gas emissions](#) (GHG), [energy use](#) and [waste to landfill](#). We also report key metrics on our [paper use](#).

Comments

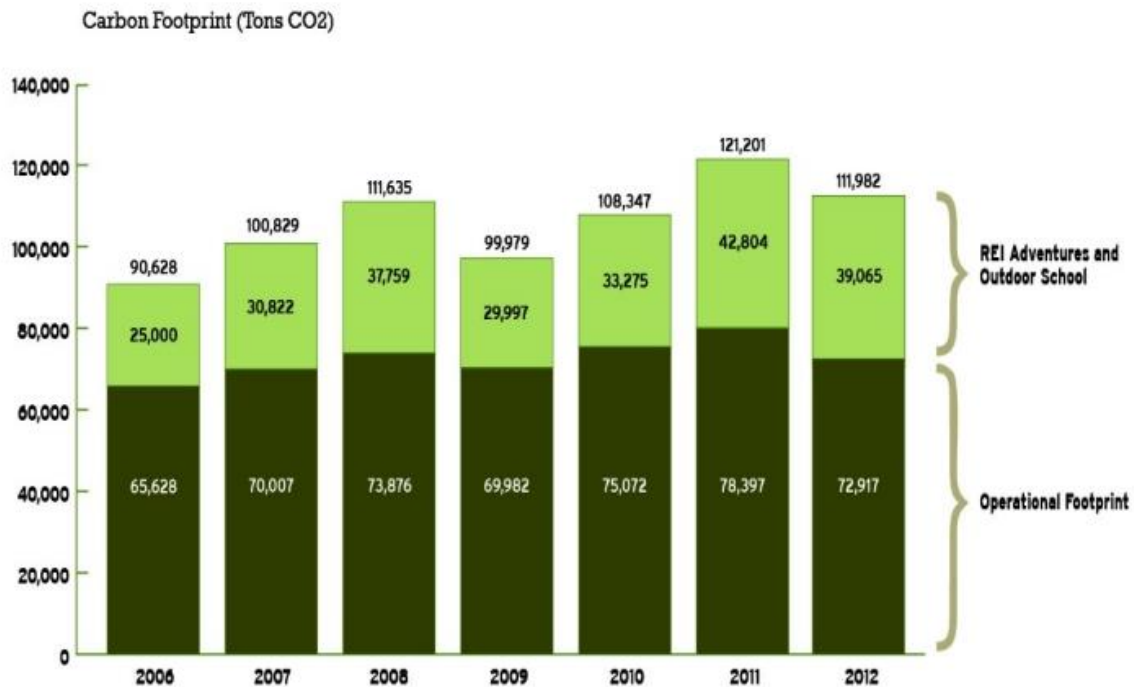
We welcome your thoughts on our 2012 stewardship report via email at stewardship@rei.com. Your feedback supports our ongoing goal of providing relevant information that is important to our members, customers, partners, employees and others.

Greenhouse Gas Emissions

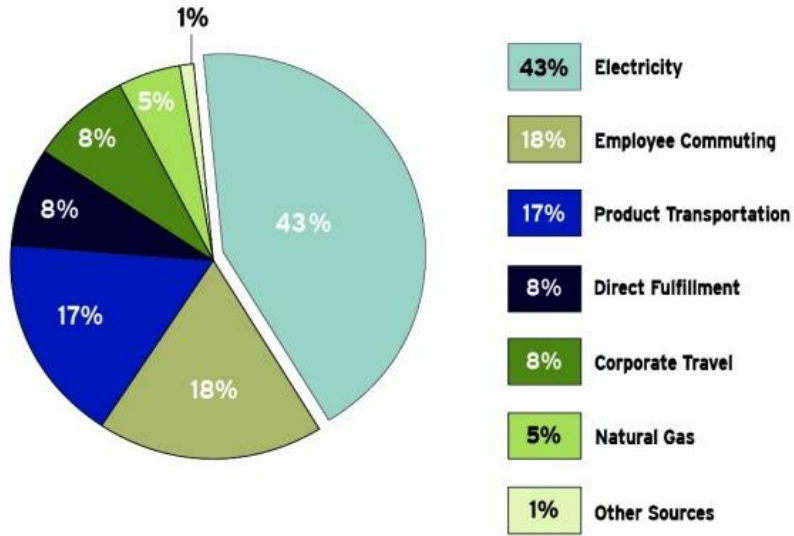
REI measures its overall greenhouse gas (GHG) emissions to minimize risks to our business and identify cost reduction opportunities. To measure our GHG emissions, we account for REI Adventures, employee commuting and corporate travel, energy use, product transportation, direct fulfillment, and miscellaneous emissions. We consider our operational footprint to include all of the above except for REI Adventures.

As one of the company's key performance indicators, our 2012 operational footprint climate impact target was to be 1.1 percent above the prior year. At 72,731 tons CO₂, we beat our target by 5.2 percent and achieved a 7.6 percent absolute reduction in CO₂ emissions from 2011 to 2012 while company sales grew 7.4 percent.

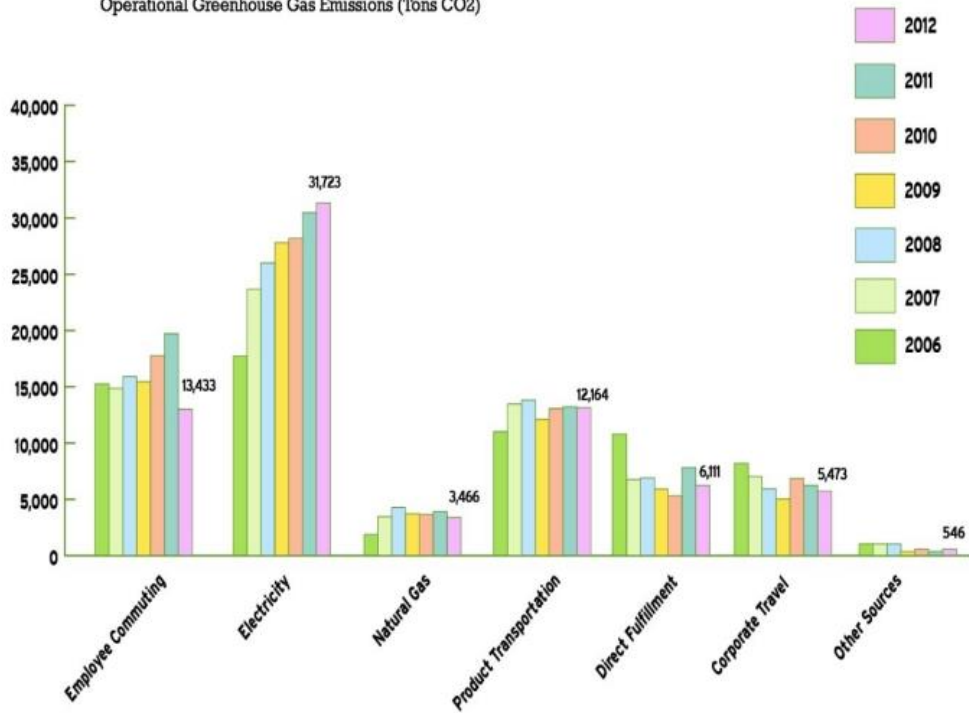
To learn more about how we measure our environmental impacts, please see the [methodology appendix](#).



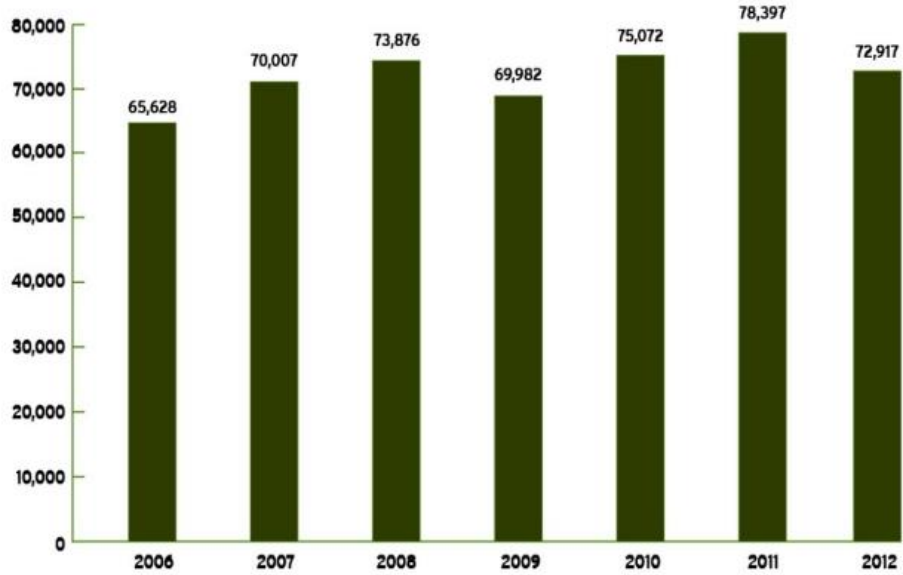
REI's 2012 Operational Greenhouse Gas Emissions
(72,917 tons CO₂e)



Operational Greenhouse Gas Emissions (Tons CO₂)



Operational Footprint (tons CO2e)



Energy Use – Electricity: 43 percent of total operational GHG footprint; Natural Gas: 5 percent of total GHG footprint

Total Energy Usage (kBtu)

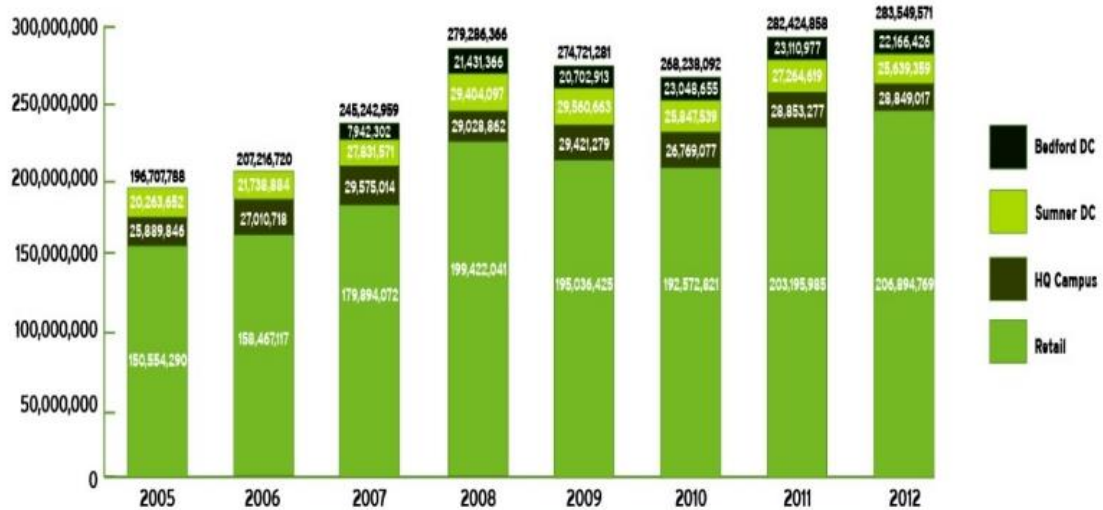
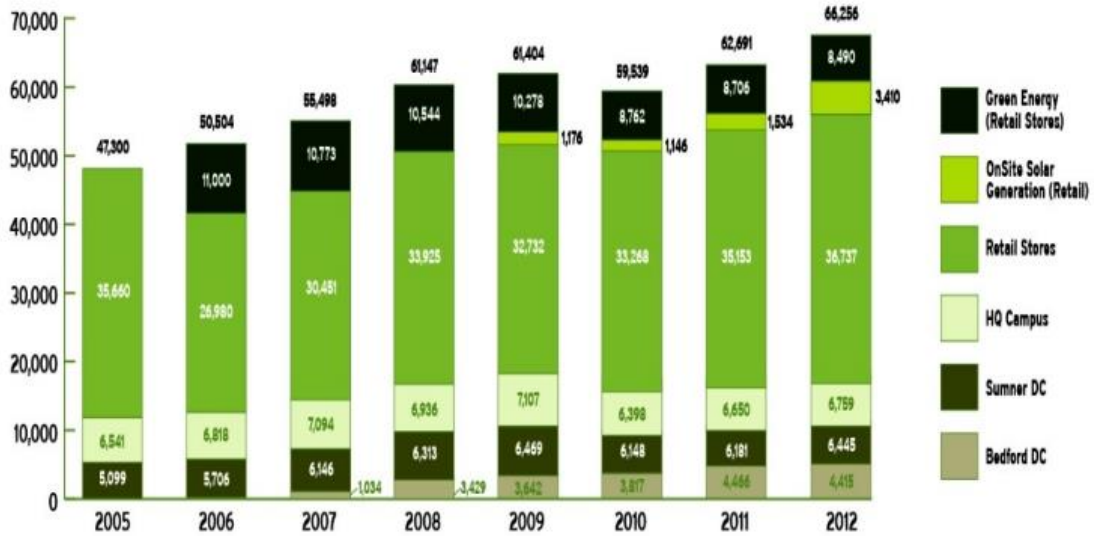
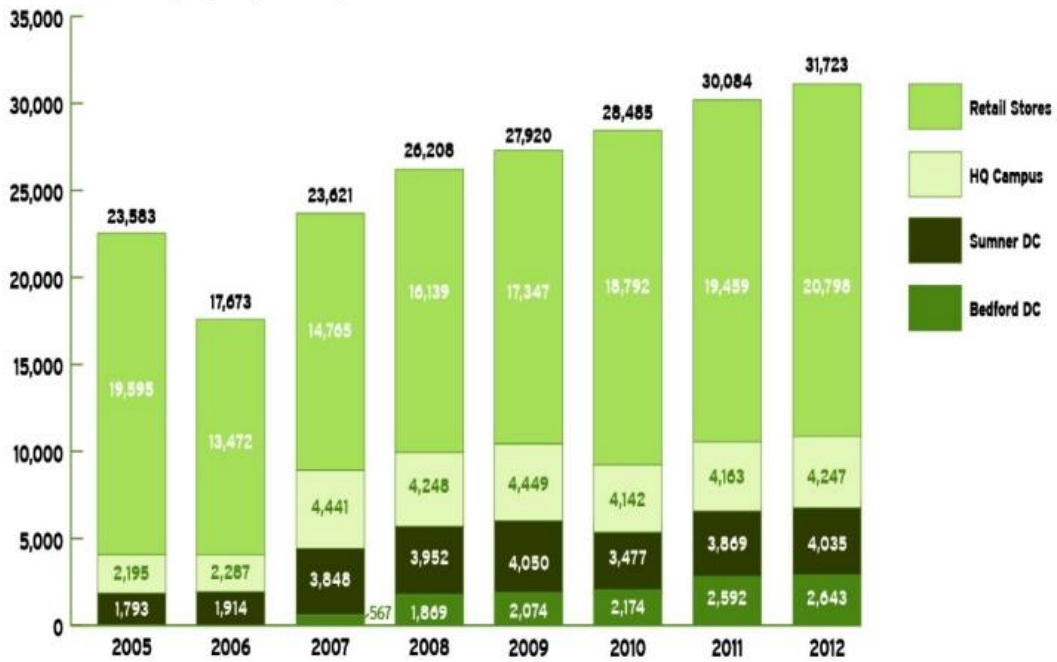


Chart combines natural gas and electricity into a common unit to illustrate total energy usage.

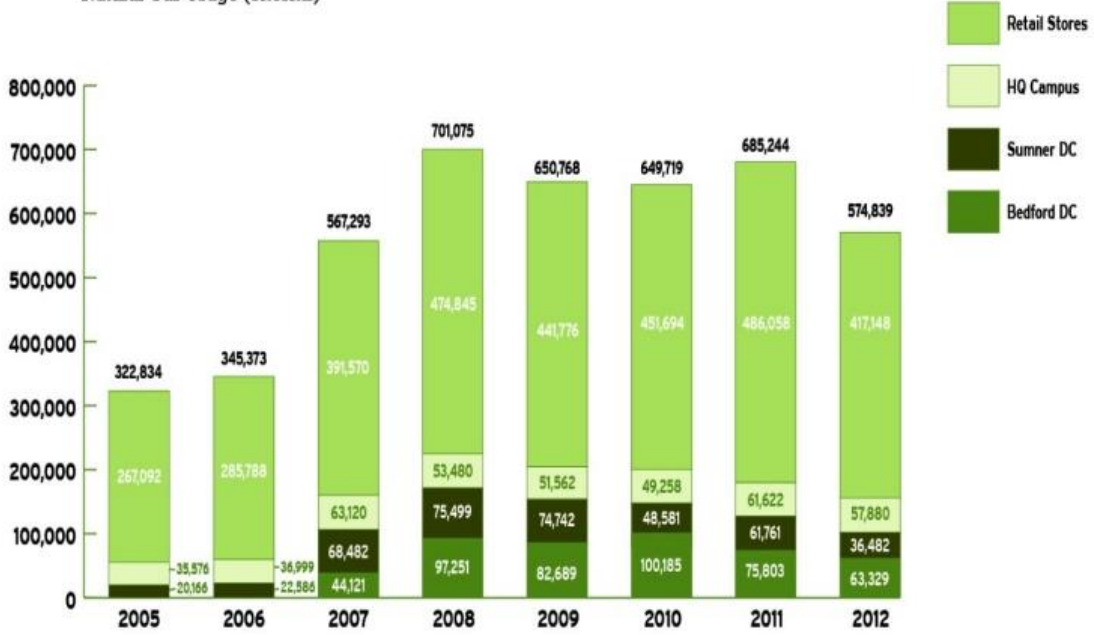
Electricity Usage by Facility (mWh)



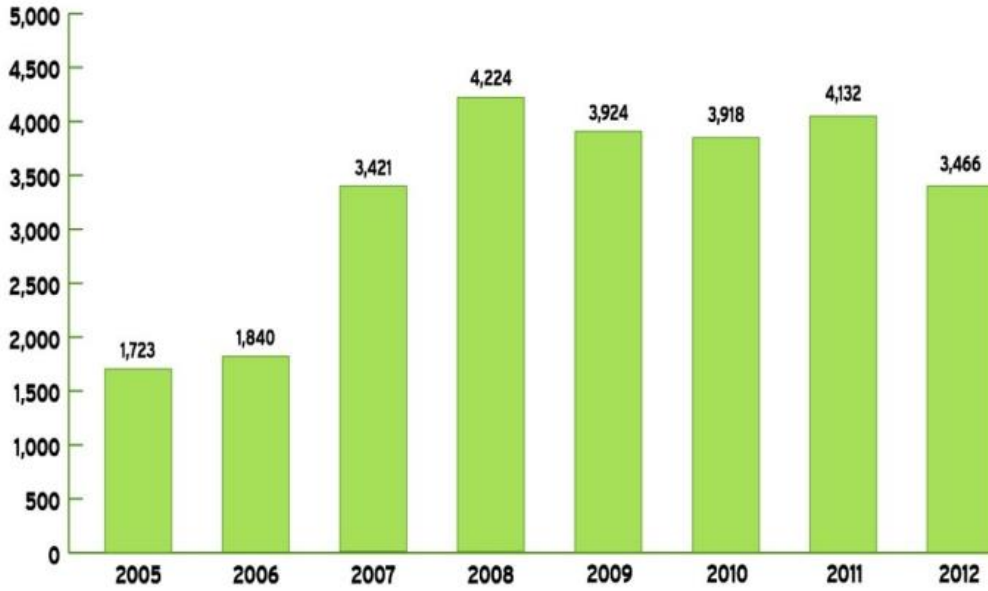
Electricity Impacts (Tons CO2)



Natural Gas Usage (Therms)



Natural Gas (Tons CO2)



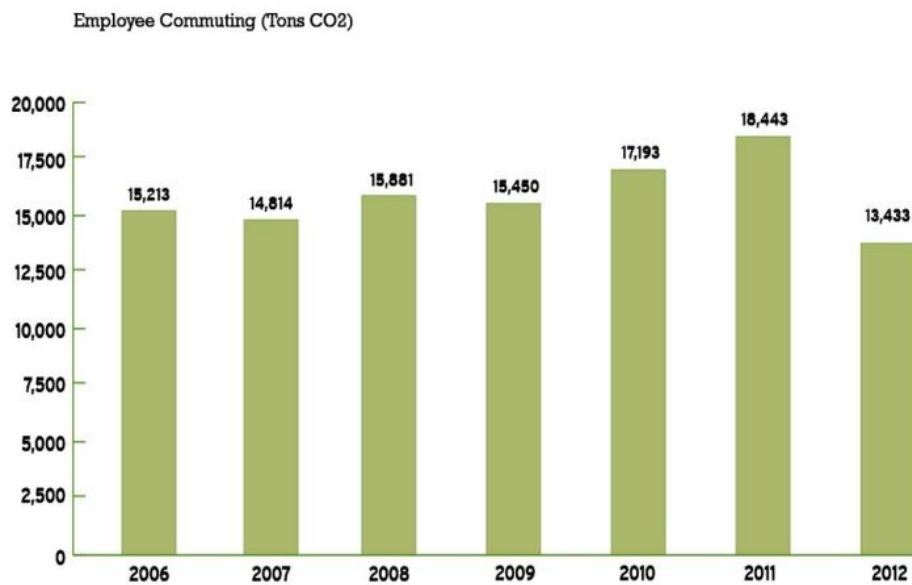
As a key performance indicator, we beat our overall energy goal to use only 1.0 percent more energy than in 2011. Our absolute energy increased by 0.4 percent year over year.

Our relative electricity consumption for our retail stores decreased from 2011 levels because of the implementation of energy efficiency investments. More encouraging is that since 2005 our annual electricity consumption for stores open for one year has continued to decrease because energy efficiency measures are part of our standard building design.

In 2012, we added solar electrical systems to three stores (two rooftop systems and one new carport system at a store that already had rooftop solar), bringing the company's total investment to 26 locations (25 stores and one distribution center). Approximately 20 percent of our retail locations have solar systems that generate between 15 and near 100 percent of their electricity needs. In 2012, we launched an infographic highlighting our solar energy investments, which you can see [here](#).

For more information about our energy strategy, please visit <http://www.rei.com/stewardship/sustainable-operations/greenhouse-gas-emissions-reduction.html>

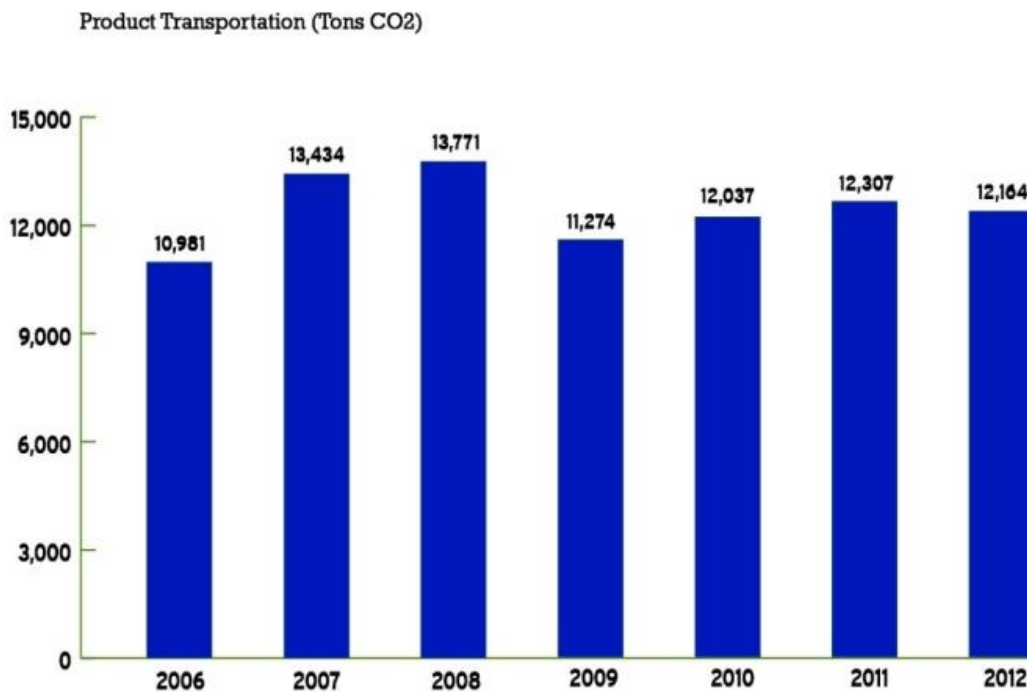
Employee Commuting - 18 percent of total operational GHG footprint



Our employee commuting emissions decreased by 27 percent from 2011. The shift occurred due to better employee commuting data and changes in commuting behavior. As the co-op continues to grow, we are working to create changes in commuting behavior through the promotion of ride-sharing and alternative commuting options and understanding the barriers to alternative commuting.

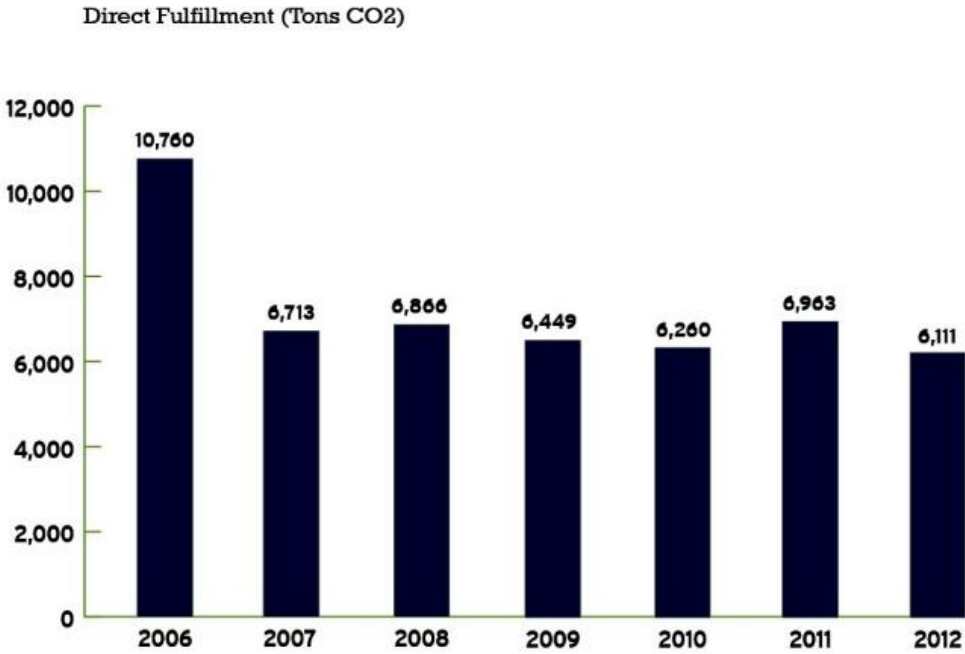
To learn more about our strategy to reduce our employee commuting footprint and incentives offered at REI, visit <http://www.rei.com/stewardship/sustainable-operations/greenhouse-gas-emissions-reduction.html>.

Product Transportation - 17 percent of total operational GHG footprint

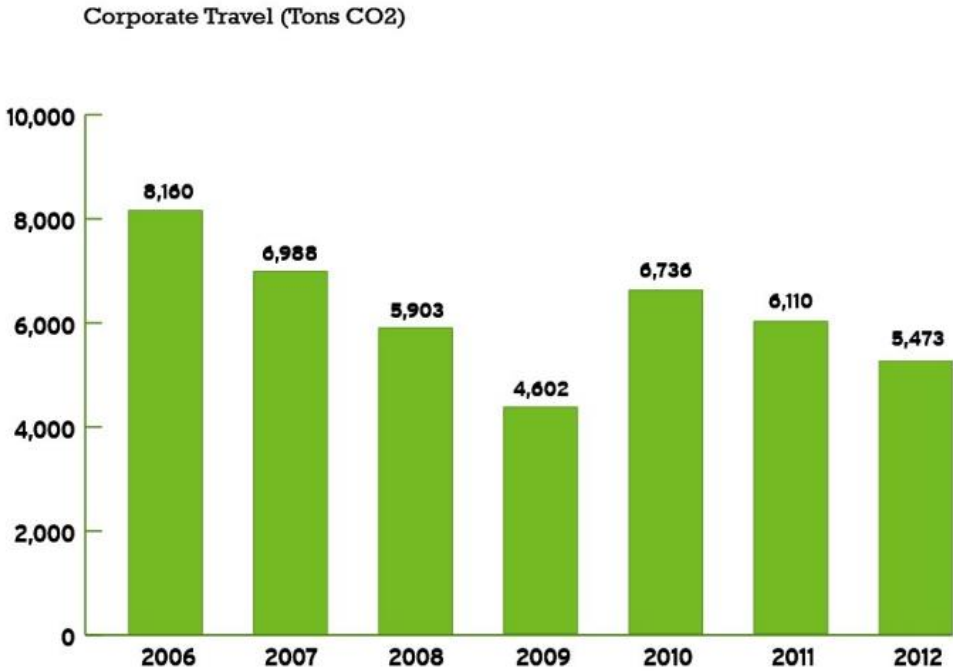


Product transportation accounted for 17 percent of our operational GHG emissions, similar to 2011 and 2010. Emissions decreased by 9 percent in a fiscal year where REI's sales grew by 7.4 percent. Our logistics team continues to minimize air freight and increase opportunities to consolidate freight.

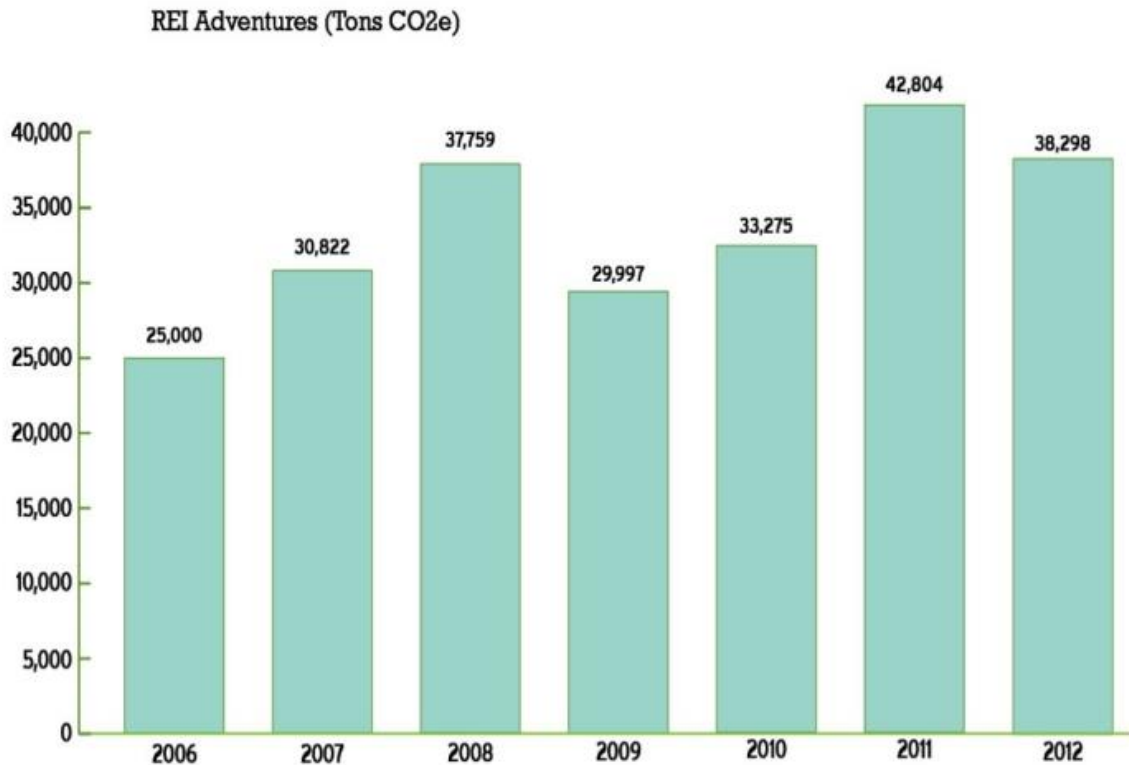
Direct Fulfillment - 8 percent of total operational GHG footprint



Corporate Travel - 8 percent of total operational GHG footprint



REI Adventures

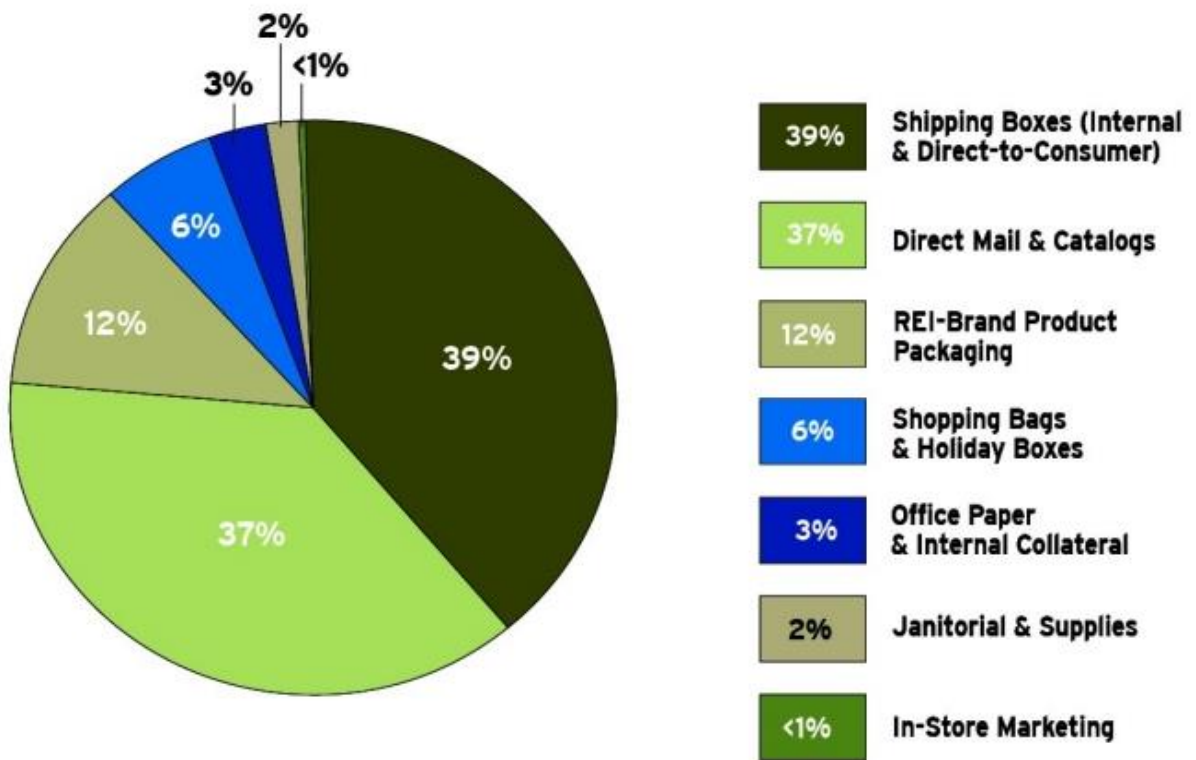


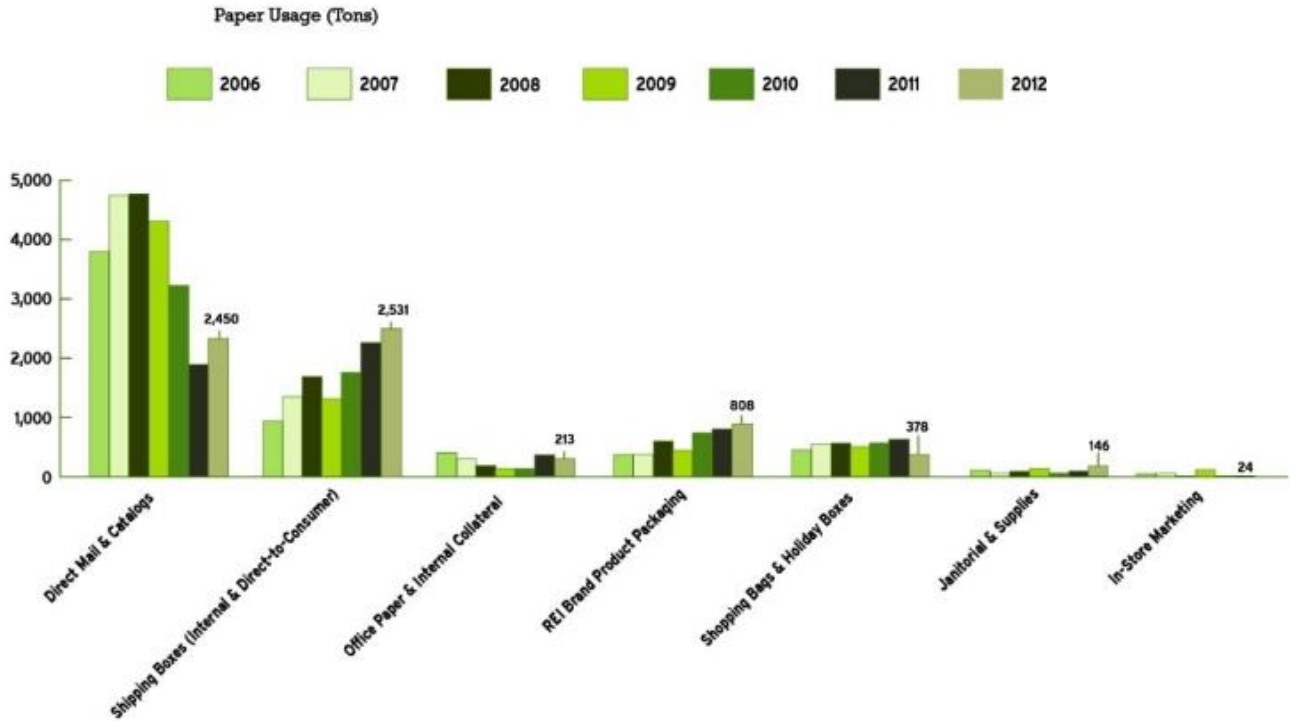
Our REI Adventures climate impact was slightly lower than in past years, due to a more accurate assessment of the in-country greenhouse gas impacts of our trips. In 2012, we stopped purchasing carbon offsets for our travel business and we are assessing our REI Adventures business using sustainability assessments that focus on more than just greenhouse gas impact. Our REI Adventures team completed work with a team of students from the [Blekinge Institute of Technology](#) to develop a broad environmental assessment using the [Natural Step Framework](#), a model that helps organizations make pragmatic decisions to make progress toward sustainability. More details of our greenhouse gas accounting are in our methodology section.

Paper Usage

Access to healthy forests is essential for outdoor enthusiasts and core to REI's business. We use fiber and resulting paper products throughout our operations—from catalogs to cardboard and packaging to ship products, to the hang tags we place on our branded gear and apparel.

2012 Estimated Paper Usage





Paper Efficiency

	2005	2006	2007	2008	2009	2010	2011	2012
Annual Sales (MM\$)	\$1,022	\$1,182	\$1,342	\$1,440	\$1,455	\$1,659	\$1,792	\$1,931
Total Paper (Tons)		6,491	7,577	7,969	6,940	6,523	6,298	6,549
Total Paper Efficiency (MM Sales \$ / Tons)		0.182	0.177	0.181	0.210	0.254	0.285	0.295
Total Virgin Fiber (Tons)		4,828	5,974	5,806	5,314	4,560	3,827	4,091
Virgin Fiber Efficiency (MM Sales \$ / Tons)		0.245	0.225	0.248	0.274	0.364	0.468	0.472
Direct Mail (Tons)		3,769	3,785	4,744	4,771	3,626	3,254	2,450
Direct Mail Efficiency (MM Sales \$ / Tons)		0.270	0.310	0.283	0.302	0.401	0.510	0.788

Source of Fiber

	Est. 2005	2006	2007	2008	2009	2010	2011	2012
Unknown	16.0%	19.8%	11.5%	6.4%	6.7%	12.3%	14.1%	16.8%
Undesirable		1.8%	5.6%	8.5%	6.0%	6.8%	8.2%	5.3%
Recycled	20.0%	25.6%	21.2%	27.1%	23.4%	30.1%	39.2%	32.1%
Acceptable	64.0%	52.8%	50.0%	39.0%	36.5%	11.0%	12.1%	10.5%
Certified		0.0%	11.7%	19.0%	27.3%	39.9%	26.4%	35.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

REI's [paper and paper products purchasing policy](#) seeks to influence several outcomes. It is designed to reduce our environmental footprint, make our paper supply chain visible, and align our purchasing decisions with our values and aspirations. We prefer to purchase paper products manufactured from post-consumer waste or virgin fiber harvested from Forest Stewardship Council (FSC)-certified forests, and we work to avoid buying products where the fiber comes from unknown or unwanted sources. For 2012, we chose to report only on the actual source of fiber for our materials (without chain-of-custody), as the existence of chain-of-custody accounting systems are now widely utilized in the paper industry and are useful only to verify the actual fiber source.

Sustainable forestry and efforts to influence our paper supply chain are strongly related to packaging innovations driven by our commitment to [product stewardship](#) as well as our [waste reduction](#) efforts.

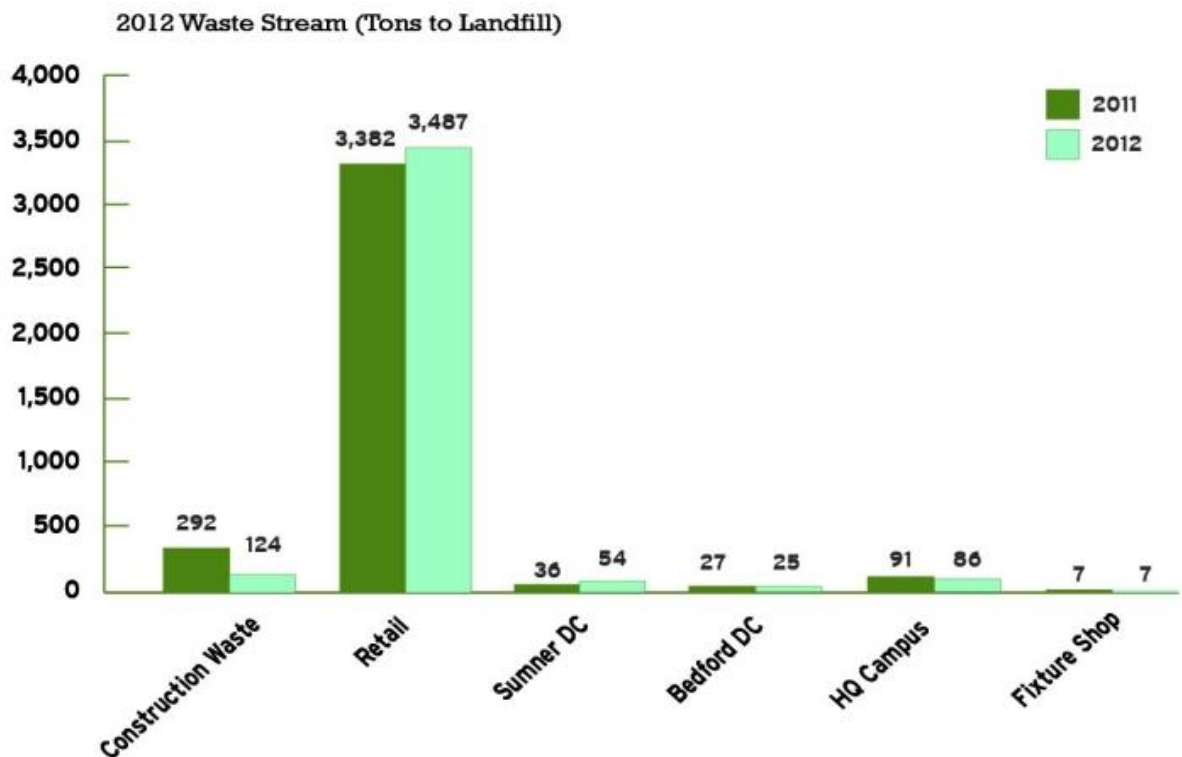
Overall, our paper use increased slightly from 6,298 tons in 2011 to 6,549 tons in 2012. This increase is due to an increase in the number of catalogs and direct mail we mailed during the year, which used 2,450 tons of paper in 2012 versus 1,957 tons in 2011. Because more than 99 percent of the co-op's catalogs and printed materials are produced on FSC-certified materials, the small increase in direct mail also increased our overall percentage of FSC-certified fiber. Additionally, 35.5 percent of our total paper came from FSC-certified virgin fiber sources, and an additional 5.4 percent of our paper came from FSC-certified post-consumer waste, so our total sourcing of FSC-Certified fiber was 40.7 percent of our total paper footprint, or 2,667 tons.

We are encouraged that our use of virgin fiber was 4,091 tons, only slightly higher than our lowest level on record. This is due largely to relatively high levels of post-consumer recycled paper used in the cardboard industry. Combined, our use of post-consumer recycled fiber and FSC-certified fiber was 67.4 percent of our total paper footprint.

Waste and Recycling

Reducing our waste contributions requires steady innovation and a commitment by teams across our company. Our progress is also linked to our [product stewardship](#) efforts and involvement with the Outdoor Industry Association’s packaging guidelines that are part of the [HiGG Index](#).

For more information on our strategy, visit the [stewardship](#) and [REI-brand](#) sections of our website. Specifics on how we measure our waste are included in the [methodology appendix](#) of our report.



Construction waste from new store openings, remodels and store relocations was 168 tons lower in 2012 than 2011. With five new store openings, our retail business grew and our operational waste increased by 116 tons in 2012 compared to 2011. Our total waste in 2012 decreased 53 tons from 2011, which is a 1.4 percent reduction.

Our distribution centers continue to divert the majority of their operational waste from the landfill. The Bedford, Penn., facility reduced its waste to 25 tons in 2012, down from 27 tons in 2011 and 32 tons in 2010. Waste at our Sumner, Wash. distribution center increased to 54

tons in 2012 from 36 tons in 2011 due to business growth and the timing of some waste hauling, but is still below the 2010 level of 69 tons.

2012

STEWARDSHIP REPORT



Methodology

This report covers REI's 2012 fiscal year and is our seventh annual report (following our [2006](#), [2007](#), [2008](#), [2009](#), [2010](#), and 2011 reports).

- We report on all of our operations, most of which are U.S.-based, with the exceptions of our REI Adventures trips that run in 37 countries and our small quality office in Shenzhen, China.
- We include the impacts from both owned and leased facilities.
- We contract all REI Private Brands product manufacturing to third-party vendors, and their environmental impacts are not included in the report.
- We do not report the embedded greenhouse gas impacts of the non-REI brand products we sell.

Links to REI's specific environmental methodology and policies are as follows:

- [Greenhouse Gas Methodology](#)
- [Renewable Energy Specification](#)
- [Paper Policy and Definitions](#)
- [Waste Methodology](#)

Greenhouse Gas Methodology

REI's estimated greenhouse gas (GHG) footprints are based on the best practice of 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.

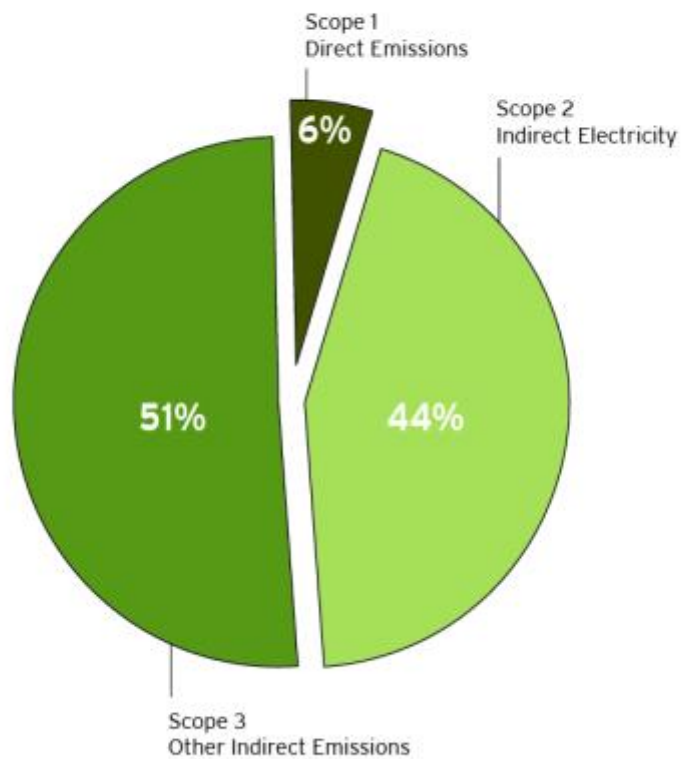
REI's carbon footprint is based on WRI's GHG Protocol, though there are some variations in our use of WRI emissions factors; especially when we have direct information about our climate impact that is more accurate of our footprint than generic industry averages would be and that provide better business intelligence for us to make decisions on.

As a retailer that doesn't directly burn fossil fuels or own production facilities, we have very few direct (Scope 1) GHG emissions. 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 (where we can) in our accounting of Scope 3 emissions, where the majority of our impact occurs. We are aware that a material amount of our Scope 3 climate impact is due to the embedded greenhouse gas emissions in the products we sell and that we don't yet have rigorous accounting methods to accurately capture this data.

In defining the boundaries for a company's climate footprint, the GHG 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.

2012 Operational Carbon Footprint (WRI Guidelines)



Scope 1: Direct Emissions

6 percent of REI's 2012 impact (4,012 tons CO₂e):

- Natural gas usage
- Fleet emissions
- o Mail and courier vehicles
 - Other
- o 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

44 percent of REI's 2012 impact (31,723 tons CO2e):

- Electricity usage

Scope 3: Other Indirect Emissions

51 percent of REI's 2012 impact (37,182 tons CO2e):

- Employee commuting
 - Product transportation
 - Direct fulfillment shipping
 - Corporate travel
- o Air travel
 - o Rental car usage

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 EPA eGrid emissions factors at the sub-region level. The most current data from [eGrid 2010](#) is from calendar year 2007. Because the eGrid sub-region for western Washington significantly under-represents the CO2 impact of electricity from our utility, 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 occurs in western Washington (where our headquarters, several stores and one distribution center are located),

so without this adjustment we would under-represent our climate impact and have less accurate data for business analysis.

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 from fulfilling 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 & Outbound:

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 for 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.

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 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, 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. We also use a similar factor for calculating CO2 from rail freight.

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 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 from our Sumner, Wash. distribution center), as this is representative of the average distance. 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 used for measuring corporate air travel. 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 than personal transportation 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 and rental car usage.) 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 emissions factor per passenger mile as we use for our REI Adventures trips. This emissions factor includes a multiplier to account for the increased climate-change impacts of radiative forcing, and does not calculate CO₂ based on flight segment length, carrier, or class of air travel (economy vs. business or first class). We continue to seek rigorous 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.

Employee Commuting:

To measure the climate impact of our employees commuting to work in 2012, we combined our employee headcount data with our sixth 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 calculations. To calculate total miles and emissions, the measurements are projected to reflect the entire population at each location, with the exception of our headquarters, where we projected emission factors within each individual department (rather than the campus as a whole).

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 2012, these estimates were calculated using these guidelines:

1. Our largest facilities (our headquarters, Sumner, Wash. distribution center, Bedford, Pa. distribution center, Seattle store, and several stores in major urban areas) 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. These include: Berkeley, Portland, Boston, San Francisco, Pittsburgh, and Manhattan. In the case of Manhattan, we assumed that all employees would take alternative transit to work.

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.

Miscellaneous Greenhouse Gas Emissions:

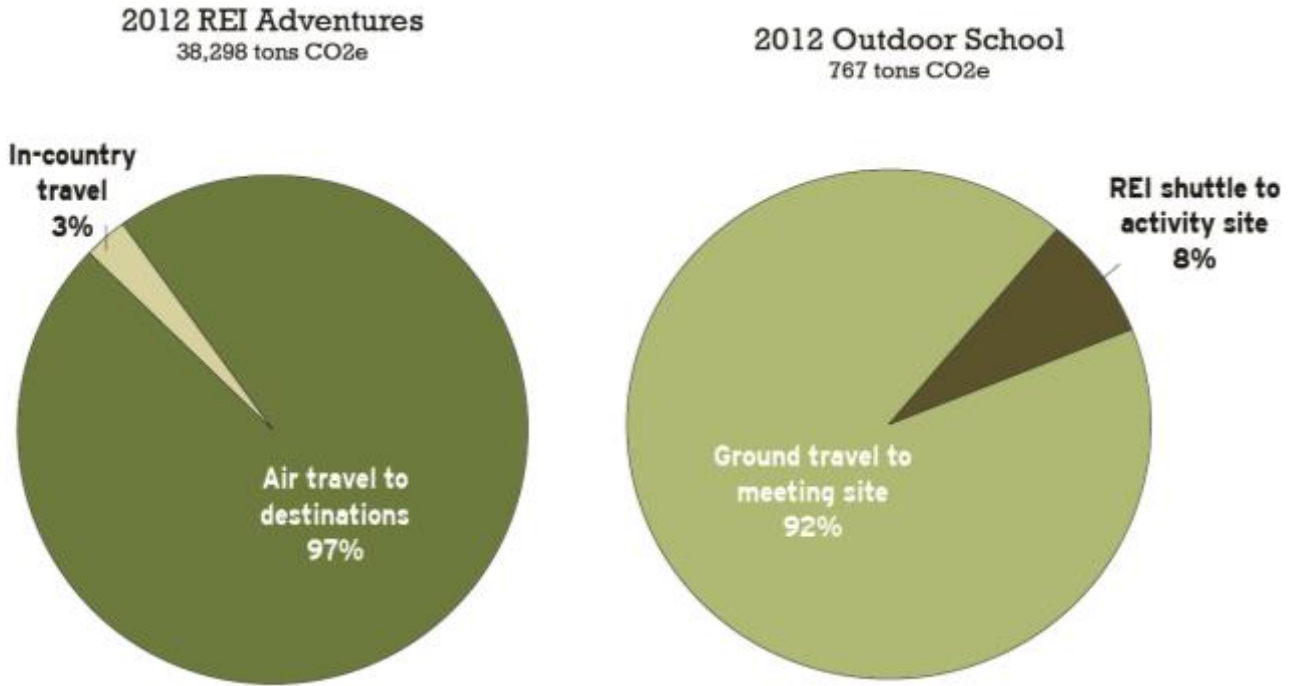
A small portion of REI's climate footprint comes from small, but meaningful sources. Miscellaneous emissions include the climate impact of fuel for fleet vehicles and the leakage of refrigerants from our heating, ventilation & cooling (HVAC) systems for our facilities where we control maintenance. These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

REI Adventures & Outdoor School:

In an effort to fully account for the GHG associated with our travel business, we estimate the GHG impact of our customers' travel door-to-door, including flights – even if REI did not include the flights in the trip package. We add the in-country impact of our trips to the travel impact to show the total climate impact of our REI Adventures business. This level of transparency goes beyond typical disclosure of climate impact in the adventure travel industry.

In addition to customer air travel for REI Adventures trips, this year we also added an estimate for the impact of our Outdoor School customers' ground travel to the meeting site. We also refreshed our methodology for REI Adventures in-country modeling to more accurately reflect the greenhouse gas impacts of our travel in the destination country.

In 2012, we stopped purchasing carbon offsets for our travel business and we are assessing our REI Adventures business using sustainability assessments that focus on more than just greenhouse gas impact.



In prior years, we reported the impact of REI-owned Outdoor School van miles as part of our operational impact. Because the vans are driven exclusively for Outdoor School trips and not for the operations of REI’s business, we shifted the associated impact from our operational footprint to our services footprint. That impact appears in the Outdoor School chart as “REI shuttle to activity site” in the Outdoor School pie chart.

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.

Pricing

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

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.

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, and 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. Although this method was relatively accurate, it had a number of drawbacks – it relied on estimates, was resource-intensive to administer, and failed to align the financial cost of our waste with the environmental cost. We see the simplest way of measuring our progress towards our aspiration as measuring the number of dumpsters we pay to dispose of. Starting in 2010, we updated our metrics 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. For stores where our waste disposal is shared with other tenants (often in a shopping mall) we estimate waste-to-landfill by assuming that the waste-to-landfill per sales dollar is the same as in the stores where we control waste disposal.

This methodology gives us a clear, simple methodology that aligns our reductions in waste with direct expense savings from reducing our landfill service.

2012

STEWARDSHIP REPORT



Product Stewardship

To REI, product sustainability describes the process to understand, consider and manage the long-term social, environmental and economic impacts associated with the design, manufacture, use and disposal of products we sell.

REI was a pioneer in pushing for a universal standard by which to evaluate product sustainability. This work began with REI co-founding the Eco Index with Timberland in 2006 and led to the formation of the Sustainability Working Group under the [Outdoor Industry Association](#) (OIA). The group’s goal was to design a tool to assess and manage the full lifecycle impacts of products.

A large number of apparel and footwear companies—beyond just the outdoor industry—adopted and modified the Eco Index into what is referred today as the [HiGG Index](#).

Major Sustainability Milestone Achieved

A major landmark was reached in 2012 as the first HiGG Index (version 1.0) was published after nearly six years of diligent work.

In April 2012, REI was recognized by the White House as one of four companies representing the outdoor industry’s work on sustainability. The co-op was joined by colleagues from Patagonia, Timberland and Columbia Sportswear in accepting a “Champions of Change” award from President Obama.

Implementing and Using the HiGG Index

Although the HiGG Index continues to evolve, REI is actively working to implement the tool across our products and supply chain.

By using the HiGG Index, we’ve identified opportunities to improve materials selection and development, chemicals management and supply chain engagement. Our next step is to clearly

define priorities and set measurable goals for improvement. We're working collaboratively with the top vendors in our private brands supply chain to assess and ultimately improve their performance. We are doing this by working side by side with other brands and retailers sharing the HiGG Index best practices across the supply chain. Training sessions with suppliers is our primary tool.

bluesign®

REI believes the bluesign® system is a positive way forward to responsibly manage chemicals in our supply chain.

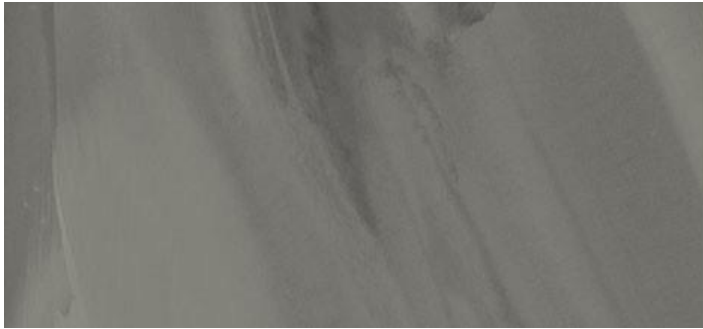
The bluesign system evaluates all the inputs (chemicals) for their intrinsic hazards, assesses the supply chain partners where chemicals are applied (mostly textile mills) for the quality of their management practices, and then checks the work through sophisticated risk management and testing. bluesign operates on the premise of preventing chemical problems rather than simply detecting them.

We have partnered with bluesign since 2008 and continue to elevate our support of the program for our private brands products. In 2012, REI increased the bluesign-certified material use to 23 percent, up from 17 percent in 2011.

Other Brands Sold by REI

The majority of products sold at REI are not our own brand. While we don't have control over their supply chains, we do seek to influence responsible choices through education, engagement, and collaboration. Fortunately, many of these brands are already active in the work of the OIA Sustainability Working Group and Sustainable Apparel Coalition. Some have also been actively implementing the HiGG Index tools within their own organization and supply chain.

2012 STEWARDSHIP REPORT



Workplace

Every day, REI's more than 11,000 employees represent the co-op's brand, culture and values through interactions with our members, customers, community partners and outdoor spaces. Their knowledge of our products and services, passion for stewardship, and commitment to customer service help make REI a recognized leader in the outdoor industry.

Employees keep our business thriving; we want to [keep them engaged](#), happy and healthy. We're proud to be a nationally-recognized employer, providing our employees with an [inclusive, welcoming workplace](#) and supporting them with [comprehensive pay and benefit programs](#). 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 16 years in a row. While we believe this ranking demonstrates our employee's satisfaction, we continue to strive each day to maintain our [strong culture](#) and [high employee engagement](#) so that the co-op remains an employer of choice.

Because those that make our branded products are part of the extended REI family, we also work to ensure those who make our gear and apparel have a [safe, fair and non-discriminatory workplace](#) that complies 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 2012 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.

Employee Engagement & Retention

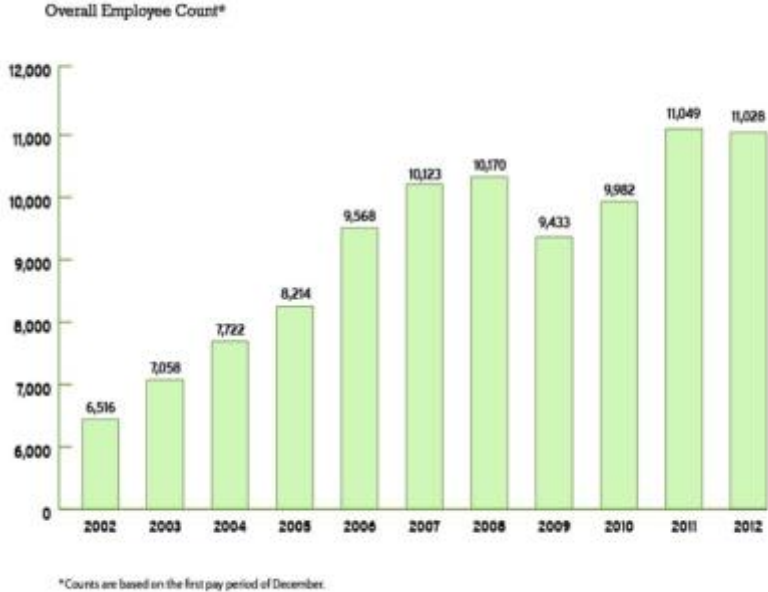
REI's roots as a co-op and our core purpose—to inspire, educate and outfit for a lifetime of adventure and stewardship—are the foundation for our unique workplace. When employees feel connected to our core purpose and make a difference with customers, members and communities every day, they stay engaged in our business and serve our customers and members well.

Employee Engagement Survey

We measured employee engagement in 2012 in an engagement survey, made available to every employee and completed anonymously. Conducted by an independent firm, the survey tracks key engagement indicators and provides comparison results from our industry peers.

The survey asks for employee feedback on key topics, including commitment, pride and loyalty, satisfaction with REI's benefits package, operational and leadership effectiveness, and communication.

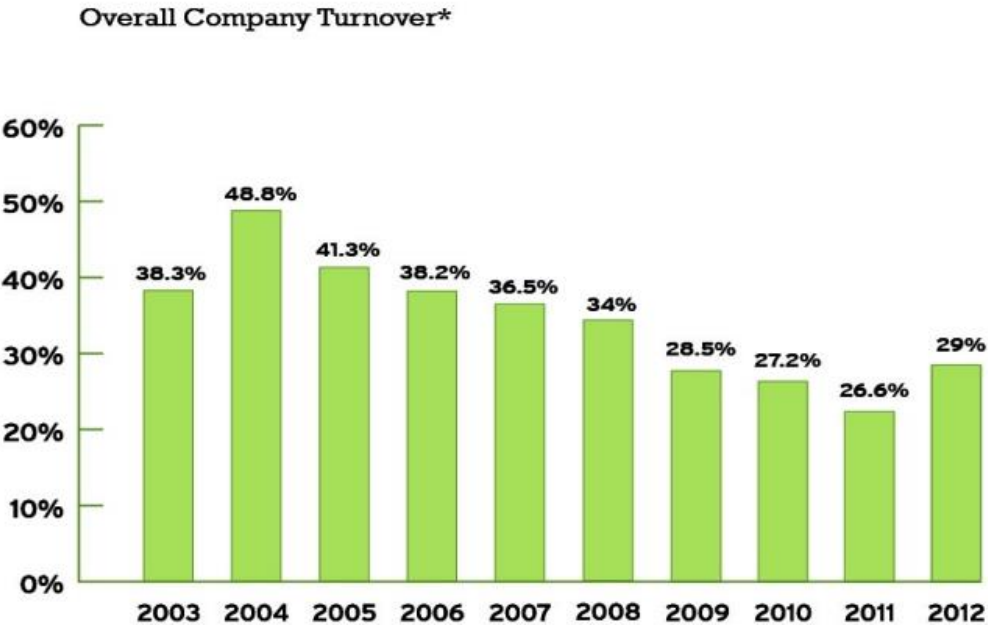
REI has historically had an impressive employee survey participation rate, and 2012's response rate was strong at 82 percent (8,274 employees returned the survey). Overall survey results showed that 86 percent of our employees are engaged. This engagement rate is calculated by looking at the favorability rating in eight key areas that make up our employee engagement index, shown below:



High engagement means that employees say that they are connected to REI values, committed to being involved, motivated to drive success and are planning to stay with the company. These attributes help qualify that employees feel satisfied at work and contributes to other strong indicators, including turnover and retention.

Turnover & Retention

Despite ongoing high employee engagement, we realize that the effects of the challenging economy, changing retail environment and limited job growth also play a role in our strong employee retention. In 2012, REI overall turnover was 29 percent.



* 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.

REI’s annual turnover percentage rate is measured by dividing terminations in a particular year, both voluntary and involuntary, by average headcount across all months of that year. Our 2012 retention rate was 77.1 percent, as compared to 79.4 percent in 2011. Employee retention is calculated using the percentage of new hires from a particular year that are still employed at year-end.

The co-op is focused on scaling our business for continuous growth—something that can’t occur without the hard work of our employees. We’re committed to supporting our employees by making sure they see how their individual contributions support REI’s overall

business direction and strategy, by maintaining open lines of communication, by providing valuable compensation and benefits, and by fostering dialogue.

Diversity & Inclusion

For many years, REI has worked to create a welcoming, inclusive environment in the outdoors and 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. Our vision is that:

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.

To work toward the fulfillment of this vision, the co-op has aligned its strategy around three primary initiatives and their corresponding goals:

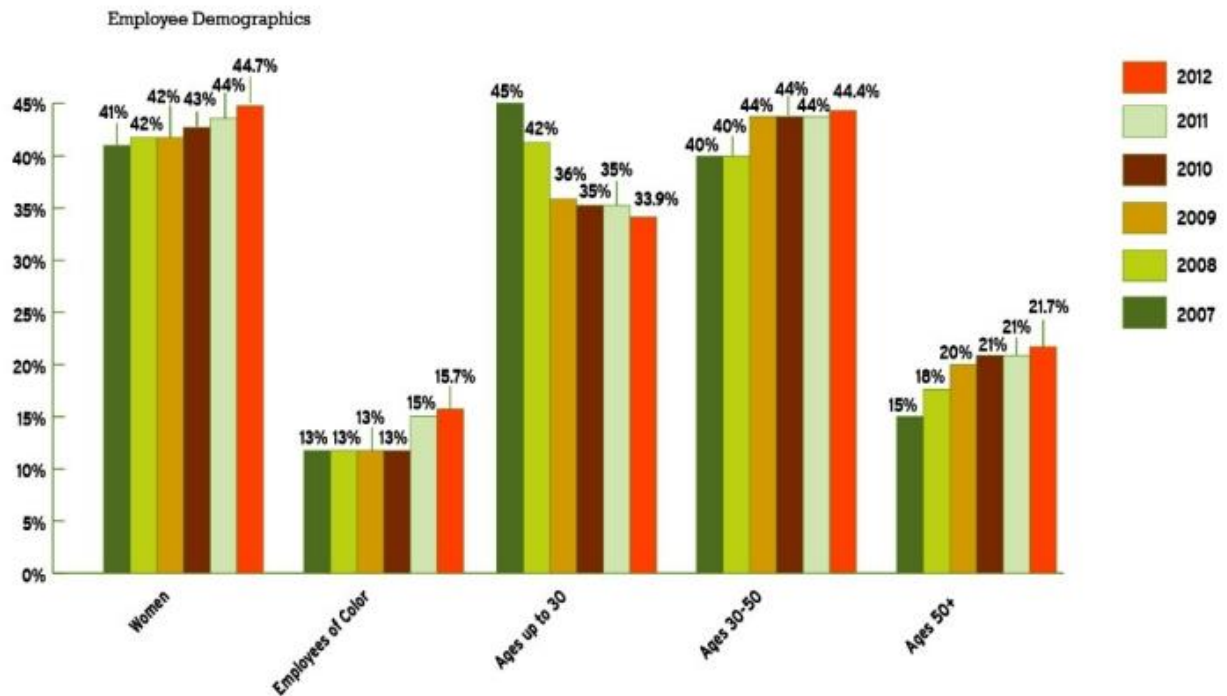
- Customers: Engage existing diverse segments who are already recreating outdoors
- Employees: Attract, develop, engage and retain a diverse and inclusive workforce
- Partnerships: Engage communities, build relationships, support business

Customers

REI has 33 stores that serve communities that are more than 25 percent Latino. In these markets, many of our stores were creating their own materials to help bridge the gaps with bilingual and Spanish-speaking customers. To help create a more cohesive approach, we worked with a specialized firm to create the “voice of REI” in Spanish, including marketing materials, membership brochures, and a pocket guide for our sales specialists. Research shows that even English-speaking Latinos look to bilingual communication as a sign that brands understand and appreciate the needs and nuances of their community.

Employees

At REI, our employees are more than just retail experts; they are members of the co-op and share in our diversity and inclusion vision. In 2012, we employed an increasingly diverse workforce, as shown in the chart below.



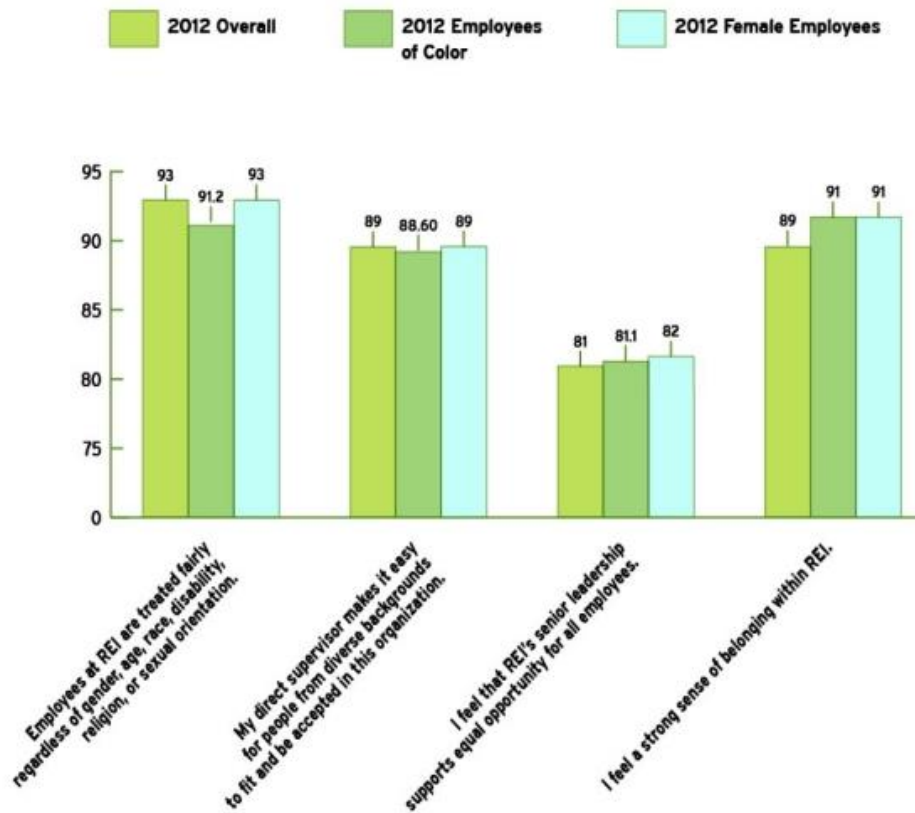
In 2011, we launched a successful “Leading Inclusion” training, which aimed to introduce shared concepts, create a common language, provide shared tools and skills and set common expectations around what it means to be an inclusive workplace.

In 2012, we completed the roll out of “Inclusion at REI” with our headquarters employees. With 23 sessions, these half-day trainings provided diversity and inclusion education to 515 participants. REI extended its commitment to this training by integrating the material into our employee orientation, as well as retail management training sessions.

In 2012, REI added gender identity and sexual orientation to our employee survey and rolled out transgender guidelines to assist managers and co-workers of employees who are undergoing a gender transition. We also took a position in support of marriage equality and Referendum 74, the Washington state Marriage Equality Act.

We believe that our commitment to an inclusive workplace and customer experience is extremely important. This commitment has led to the improvement of our Human Rights Campaign’s [Corporate Equality Index](#) score from 65 to 90 and resulted in industry-leading scores for inclusion on our 2012 employee engagement survey:

2012 Employee Inclusion Index (Total Favorable)



Partnerships

In 2012, we successfully launched our National Diversity Partnership Initiative, building comprehensive partnerships that encompass organizational and event sponsorships, social media and content development, employment opportunities and vendor collaboration. We are now proud sponsors of [Black Girls Run](#), [National Brotherhood of Skiers](#), National Brotherhood of Cyclists, [Outdoor Afro](#) and [Expedition Denali](#). Our inaugural Latino efforts focused on events with [National Council of La Raza](#), Siclovia, Junta Hispana and Adventures Denver.

As part of our “Women in Retail” efforts, we expanded our partnership with the [Outdoor Industry Women’s Coalition](#) (OIWC) and are underwriting a mentoring pilot for women.

Pay and Benefits

An 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 well above average in our industry. [Click here](#) for a more detailed overview of the employee benefits program.

Health Care Coverage

Providing employees with affordable health care benefits is important. For this reason, we have generous eligibility guidelines. Employees who work more than 20 hours per week are eligible for a variety of options for health care coverage through our Flex Plan. REI's subsidy of health care benefits is larger for employee-only coverage and proportionately higher for our hourly employees.

PaTH Plan Health Care Coverage

Most retailers do not subsidize coverage for their part-time employees. At REI, part-time employees who work fewer than 20 hours per week can enroll in health care coverage through the PaTH (Part Time Health care) 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.

Approximately 1,200 employees, or 20 percent of eligible employees, participate in PaTH medical coverage (10 percent of total employee population).

Flex Plan Health Care Coverage

Our Flex Plan has three medical plan options—each with different features and price points, including an option for a high-deductible health plan that features a Health Savings Account with employer contributions.

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. More than 5,000 employees were enrolled in our Flex Plan at the close of 2012.

In order to keep health benefits affordable for both our employees and REI, we have a sliding scale premium structure for employee contributions. The structure has four pay bands based on an employee's annual base pay. Employees in lower pay bands contribute less for health care coverage. More than 51 percent of REI's employees fall into the first pay band, with the first two pay bands covering 80 percent of our employees.

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 2012, all employees were eligible to participate in Health Quest, our wellness program. A cornerstone of the Health Quest program is self-awareness via an online well-being assessment. Employees who take this 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.

In addition, we offer Flex Plan-eligible employees \$300 that they can apply toward their benefit costs. In order to receive this discount, employees must:

- Complete the Health Quest well-being assessment
- Report their health numbers (cholesterol, glucose, etc.)
- Be current with recommended preventive care

Commuter Benefits

To reduce our carbon footprint and decrease the number single-occupancy vehicles on the road, REI provides a 50 percent pre-tax subsidy on public transit expenses (including bus, train, vanpool, and ferry) up to the current IRS limit through payroll deduction. For employees with limited alternative commuting options, we also offer a pre-tax parking subsidy at locations that require paid parking.

Saving for Retirement

Eligible employees share in the co-op's financial success through our industry-leading REI Retirement and Profit Sharing Plan. This plan is made up of two parts:

- A guaranteed contribution of 5 percent of base pay into the retirement plan (even if employees don't contribute themselves)
- A discretionary profit-sharing contribution up to an additional 10 percent into the retirement plan based on company performance

In early 2013, REI funded more than \$10 million in contributions based on the company's performance in 2012. More than 5,700 employees received the guaranteed 5 percent company retirement contribution. This amount far exceeds the retail industry norm of 3 percent.

All employees may contribute their own pay to the Retirement and Profit Sharing Plan. We also allowed employees to defer up to 50 percent of their incentive payout into the plan.

Incentives for Performance

Employees receive incentive awards based on how well the co-op performs and how each division or store performs. This benefit is offered to *all* employees, regardless of tenure or role. In early 2013, all eligible employees shared an incentive plan payout of over \$13 million. This employee incentive plan focuses solely on team and co-op performance.

Factory Fair Labor Compliance

The proper treatment of workers is a key tenet of REI's business operations. To advance this practice, the Fair Labor Compliance (FLC) team partners with departments across the co-op to implement fair labor strategies for REI Private Brands' products. In particular, the Sourcing and Fair Labor teams collaborate on process alignment, supplier approvals and audit remediation.

REI's FLC program benefits from the guidance of five executives who serve as the Fair Labor Oversight Committee (FLOC). The committee monitors program development and is consulted on key strategic decisions. While the FLC team reports directly to REI's associate general counsel, the FLOC has reporting responsibilities directly to the Audit and Finance Committee of REI's board of directors.

The FLC program is has four program components:

Audits and Capacity Building

Each year, REI elects to audit a percentage of the "tier one" factories in our supply chain. "Tier one" factories are those locations where final assembly occurs. In 2012, the supply chain for REI-brand product consisted of 133 factories. Of those, 35 factories were audited, or 27 percent of our supply chain. To reduce the burden on factories of redundant audits, we obtained nine of the 35 audits from other brands that maintain high standards for factory compliance.

Audit data and findings are uploaded to a shared industry database, the Fair Factories Clearinghouse (FFC). REI then asks suppliers to identify the root cause of each finding, develop a corrective action plan, and commit to specific completion dates. REI's consults regularly with suppliers throughout the process until the factory attains a status rating of "continuous improvement."

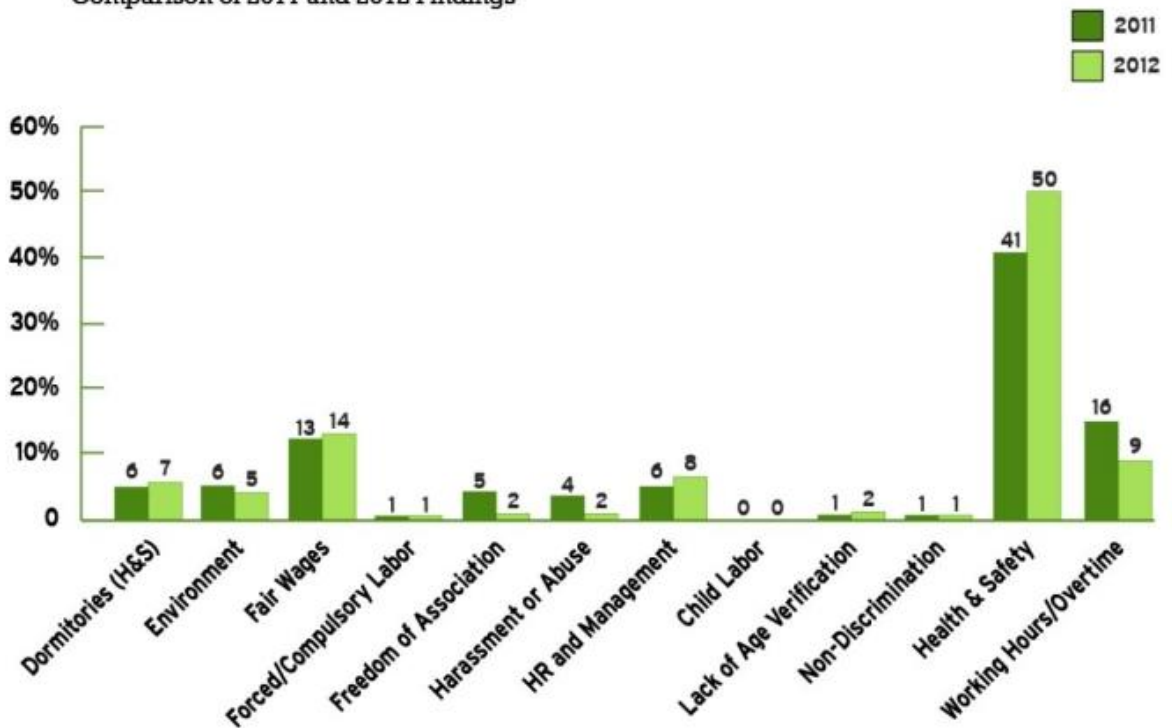
The following Factory Code of Conduct themes were identified from the 2012 audits:

- Lack of transparency in record keeping
- Lack of operational policies and procedures to protect workers' health and safety and prevent discrimination, harassment, and abuse
- Management and workers' lack of education on FLC requirements and workers' lack of understanding of what constitutes a safe workplace
- Lack of knowledge about, and inadequate staff to handle, social compliance work

REI is selective about its factories and seeks to work with quality partners. Even with such partners there can be areas identified for improvement. Our goal is to address these issues through our audits and associated remediation plans, and to better understand and address root causes of compliance challenges.

The following chart illustrates the categories of non-compliance with REI's Factory Code of Conduct. This information is derived from standard audits uploaded to the FFC.

Comparison of 2011 and 2012 Findings



Note: Refer to the [REI Factory Code of Conduct Elements](#) (PDF) for definitions of non-compliance categories.

In addition, FLC conducted assessments at six factories through the services of the International Labor Organization for factories in Vietnam, and an individual consultant for those in China. Assessments involve dialogue with factory management to identify the presence or absence of human resource systems. Based on the gaps identified through the assessments, FLC partners with factory management to close those gaps.

Internal Process Improvement

Throughout 2012, REI focused on three fundamental procedures:

- Onboarding new vendors and associated factories:
 - Enhancing the vendor obligations when bringing on a new producing factory
- Mapping the Fair Labor Program
 - Detailing the strategic and tactical work around the program core strategies
- Enhancing and completing standard operating procedures

- Detailing the process to onboard new vendors, the monitoring and follow-up process, and protocol around problematic factories

The 2011 Stewardship Report described the details of the escalation plans created by the FLC and the FLOC. These escalation plans provide a roadmap for consistently remediating difficult situations. In 2011-2012, the plans were put to the test with one supplier. Due to the supplier's continued lack of transparency and inability to follow through with the requirements of the escalation plan, the Fair Labor and Sourcing teams agreed to exit the factory.

While making an unannounced visit to another factory, factory management could not convincingly articulate their stand on hiring minors, nor were they able to produce or discuss their policies in this area. The Sourcing and Fair Labor teams determined the best course was to source from a more sophisticated supplier.

Training and Awareness

The FLC hosted educational sessions for new REI Private Brands employees to broaden their awareness of the Fair Labor Compliance Program. In addition, the staff in REI's Quality Office in Shenzhen, China received training on the REI Factory Code of Conduct and the Visual Observation Checklist (VOC). These trainings provided specific information for the quality team to use while in factory. Their use of the VOC operates as an extension of the FLC team. The checklist includes a description of safety and labor-related issues that REI employees can easily identify while traveling to factories.

California Transparency in Supply Chains Act

The California Transparency in Supply Chains Act ("the Act") went into effect January 1, 2012. The Act requires brands that meet specific criteria to disclose their policies and actions to eradicate human trafficking and slavery in their supply chains. Human trafficking involves the recruitment, transportation, or sale of people for forced labor.

REI's detailed disclosure on practices covered by the Act is available on REI.com.

In addition, employees from REI's CSR, Fair Labor, Sourcing, Quality and Design teams and REI's Quality Office employees were trained on the topics of human trafficking and sex slavery.

External Collaboration

Associations

In 2012, REI actively participated with these associations:

- Outdoor Industry Association Sustainable Working Group (formerly the Outdoor Industry Association Social Responsibility Working Group)
- The Sustainable Apparel Coalition Social Labor Working Group
- International Labor Organization Better Work Program, Cambodia and Vietnam
- Fair Factories Clearinghouse

Service Providers

In 2012, REI engaged the services of the following third-party consultants for audits and capacity-building events:

- The president and founder of The Cahn Group continued to augment REI's Fair Labor program by implementing grievance procedures at the factory level, in addition to the employee training at REI's headquarters and quality office
- An independent consultant based in Beijing, China, performed assessments at three factories that manufacture REI products and managed a project to support an enhanced worker-management communication and grievance mechanism at a sleeping bag factory (in partnership with another industry retailer)
- Level Works, Inc., based in Hong Kong and San Francisco, conducted audits in China and Mexico
- Openview Services, Inc., based in Hong Kong, specializes in auditing and capacity building. Openview conducted audits in China and Indonesia
- The International Labor Organization, based in Geneva, Switzerland, oversees the Better Work training programs and remediation in Cambodia and Vietnam
- The T Group, headquartered in New Delhi, India, conducted audits in Sri Lanka.

The FLC team focused on establishing a stronger program foundation in 2012 both through the actions identified under internal process improvements and through active participation with external companies and initiatives. In particular, the team interacted with the Sustainable Apparel Coalition in developing modules for the HiGG Index, and engaged new factories in the ILO Better Work Program Vietnam.