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2011 STEWARDSHIP REPORT

OUR COMMITMENT



The inclusion of stewardship in REI's core purpose statement is deliberate and intentional.

Stewardship is how we act on our love for the outdoors. Our employees enthusiastically "inspire, educate and outfit" others for a lifetime of outdoor adventure and they embrace the co-op's stewardship ethos as the way we do business.

Our commitment includes a wide range of efforts across REI, including working with nonprofit partners in the communities where we do business, collaborating with our industry peers to address the environmental footprint of our products, and using the lens of social and environmental responsibility in running our business.

We invite you to read our annual stewardship report, which outlines the co-op's successes and challenges during the 2011 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 2011 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.

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2011 STEWARDSHIP REPORT

OUR COMMITMENT

Letter from Sally Jewell

REI President and CEO

The opportunity for each of us to be everyday stewards and make tangible changes where we live, work and play brings a sense of purpose and meaning to our lives.

Along the pioneering journey of reducing REI's impact on the planet, while supporting a healthy and growing business, one of the activities that inspires me the most is teaming up with REI employees and engaging with community leaders who are caring for our shared environment across the country.

For example, last spring, it was a pleasure to join fellow employees and local high school and college students in a service project in Prospect Park in Brooklyn, New York. This was the beginning of a collaborative effort by our employees to maintain outdoor spaces in each of New York City's five boroughs. Earlier in the year, it was inspiring to attend the national Net Impact conference, speaking with enlightened business school students and business leaders about REI's sustainability journey, and to share ideas of how we support business growth and a healthy planet.

Closer to home, it is energizing to witness the ways in which REI employees have embraced their leadership roles in our long-term stewardship aspirations – from an individual's pledge to change how they commute to work; to our Private Brand's team approach to product and package design, sourcing and manufacture; to our active participation in industry-wide collaborations to influence broad change.

Our annual stewardship report is published to be transparent in our business practices with our employees, members, customers and others. Some highlights include:

- \$4.48 million granted to more than 330 local and national nonprofits that share our commitment to care for the great outdoors. The result was 3.4 million volunteer hours to protect and maintain natural spaces and recreational areas
- More than 540 REI-sponsored conservation projects, including 35,990 volunteers and 137,089 hours of "sweat equity" on trails, parks and waterways
- A decrease in REI's operational waste, led by recycling efforts in our distribution centers
- A continued solar investment through the addition of 12 new systems, bringing the company's total solar power generating installations to 23 stores and one distribution center
- A highly engaged workforce and record low turnover of 26.6 percent, compared to the average retail industry rate of 63 percent



As our sixth annual stewardship report is published, we recognize there is considerable work to be done in order for us to meet our environmental aspirations.

Achieving these goals while we continue to grow to serve our members and community is challenging and requires innovation well beyond our ability to accomplish them independently. We firmly believe that sustainability is a "team sport," and we will continue to work collaboratively with others to make steady progress.

On behalf of REI's 11,000 employees, thank you for your interest in the co-op's stewardship efforts and continued support of our business.

Whether on the trail, on a bicycle or on the water, we hope you find time to take in the beauty of nature and invite you to join us in a fun and rewarding stewardship project, caring for lands and water close to home.

Warmly,

Sally Jewell, REI president and CEO

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2011 STEWARDSHIP REPORT

OUR COMMITMENT

About the Report

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 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 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 sixth stewardship report covers the co-op's activities and performance related to these areas during the 2011 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).

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 2011 stewardship report is organized into the three 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; and [Workplace](#) – the co-op's workplace priorities and policies, as well as 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 2011 stewardship report, we built on the foundation we established in our first five reports. The scope of our reporting is for calendar year 2011, 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. While the process was largely a cross-functional internal effort, we have consulted with external experts regarding 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

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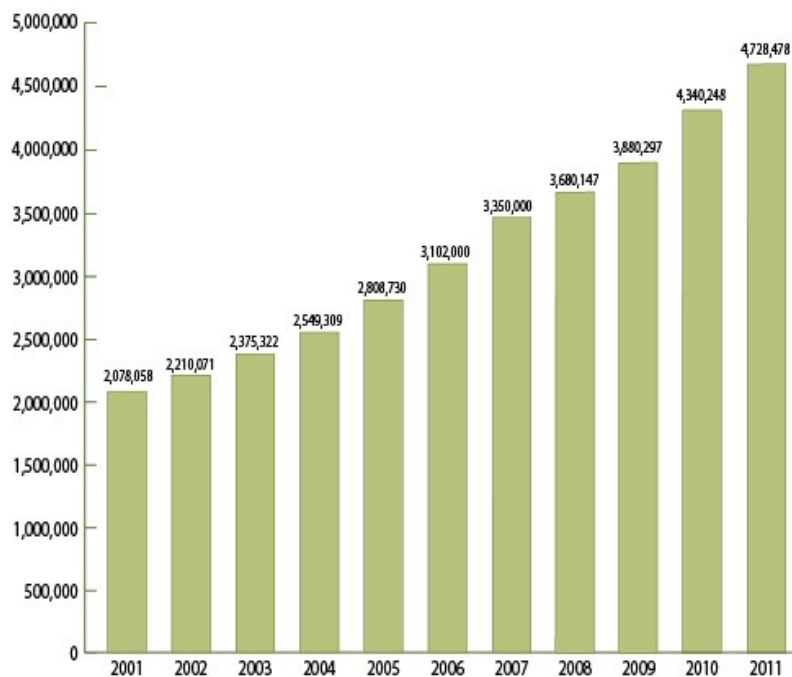
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OUR COMMITMENT

Quick Facts About REI

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

Active Members*



* 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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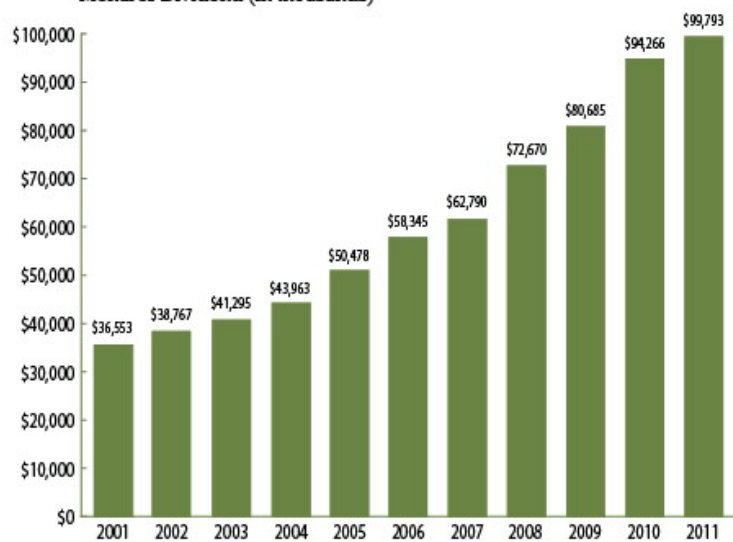
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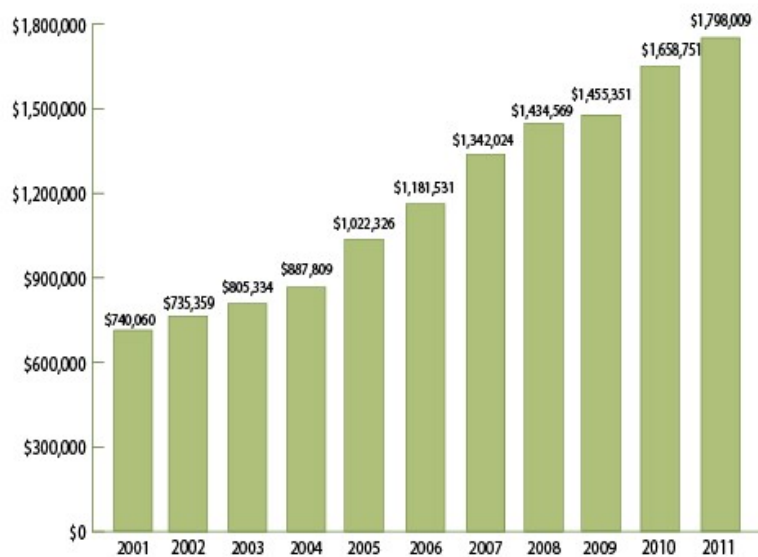
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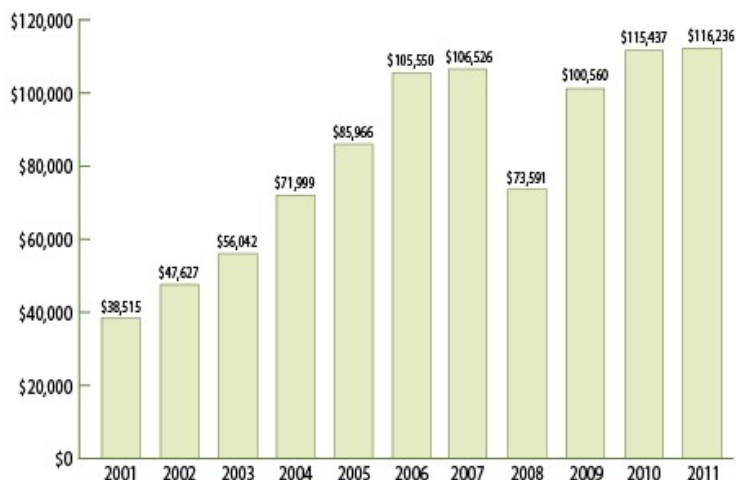
Member Dividend (in thousands)



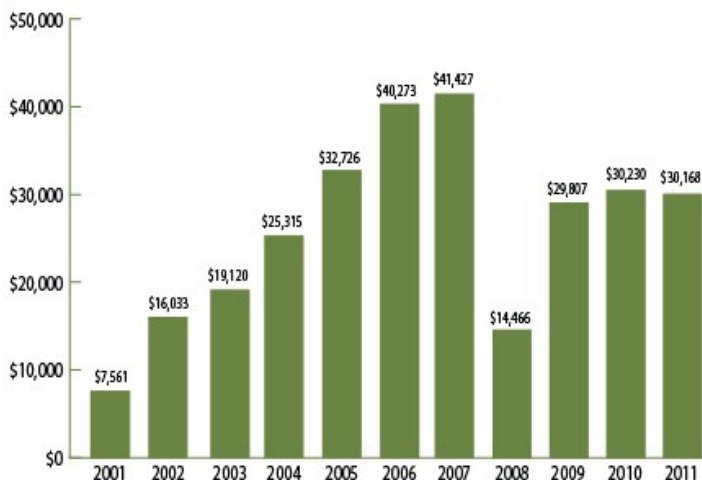
Sales (in thousands)



Operating Income (in thousands)



Net Income (in thousands)



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COMMUNITY



REI in the Community

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

From collaborating with local nonprofit partners to innovative outreach programs, we are eager to encourage others to live healthy, active outdoor lifestyles. Our focus also helps take care of natural spaces while helping young people become the next generation of outdoor stewards. In addition, we want to inspire our employees, members and customers to join us in volunteer efforts to preserve and protect natural spaces.

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

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Giving Philosophy

Since 1976, REI has provided more than \$37 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.

Each year, we allocate 3 percent of the previous year's operating profit to our annual giving budget. As a result, in 2011, \$4.48 million was given to more than 330 local and national groups that take care of the places we love. 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 employees who nominate local partner nonprofits. We believe this approach is the most authentic way to invest in communities because REI's more than 11,000 employees have the strongest connection to the communities where they work, play and volunteer.

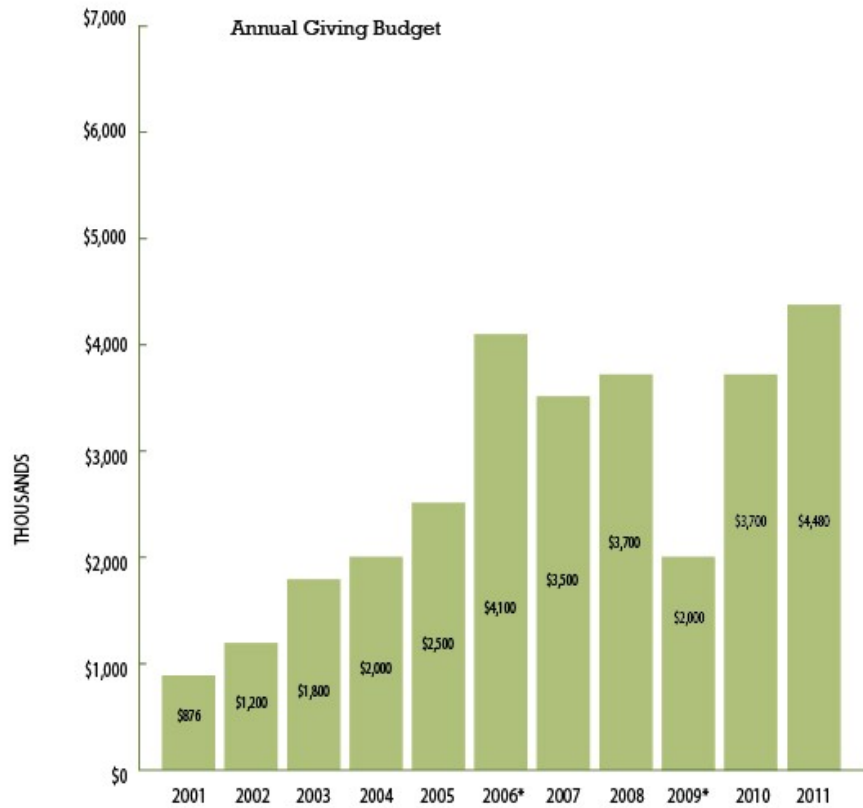
Each grant proposal is evaluated in the context of REI's funding priorities and criteria that involve evaluation of impact, engagement and accountability. Proposals are also evaluated according to their impact to increasing outdoor volunteer stewardship. This approach helps make sure that our grants are strategic, and create the best, most impactful result. We do not accept unsolicited requests or proposals.

Our engagement goes well beyond grant making, however. We also work closely with each recipient to leverage our resources and relationships. For example, REI employees help connect our nonprofit partners with our members, customers and the community to bring more attention to the nonprofit's work and to publicize how people can get involved as volunteers.

You can see how REI teams with nonprofits in this video.

As a leader in our industry and community, the co-op takes seriously its role in supporting and promoting outdoor recreation and conservation. For that reason, REI executives are expected and encouraged to give their time and talent to nonprofit boards and the co-op provides financial support to those nonprofits, as well as other nonprofit partners.

To support those in need, REI actively partners with the Red Cross to support disaster relief efforts in communities around the world. In addition, we remember REI employees who pass away by making donations in their honor to nonprofits meaningful to them.



*Giving in these years exceeded 3 percent at the discretion of REI's board of directors.

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2011 STEWARDSHIP REPORT

COMMUNITY

Volunteerism

Based on our giving philosophy, we use our grants program to help fund and support volunteer projects that take care of shared recreation spaces. From building trails to maintaining local parks, our members and customers cherish these public treasures and we believe the co-op can help preserve and protect wonderful outdoor places.

To do this, we made more than 330 grants totaling \$4.48 million primarily to national and local nonprofits in 2011 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 on behalf of those that enjoy shared natural spaces. [Watch REI store employees in action](#) through a series of volunteer service projects in each of Manhattan's five boroughs.

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

- 569,828 volunteers cared for natural places
- 25,942 miles of trail were maintained and 694,710 acres of land were restored
- 3,352,118 volunteer hours were dedicated to working on trails, parks, and waterways

One example of a successful partnership is REI's involvement with Volunteers for Outdoor Colorado, a recipient of a 2011 Stewardship Leader Grant. [Read the blog and watch the video](#) that highlights the impact achieved through the combination of the love for the outdoors and sweat equity.

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

- 543 volunteer conservation projects involving 35,990 volunteers
- 137,089 volunteer hours spent on conservation projects

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The REI Foundation

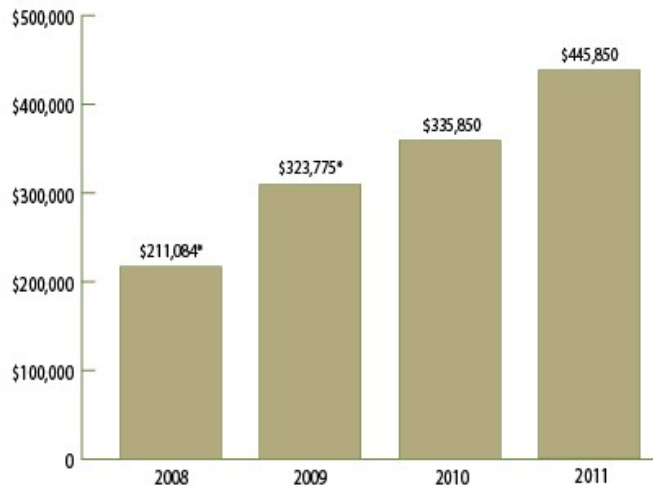
The REI Foundation is a separate, endowed nonprofit organization that has its own board of directors, all of whom are employees of the co-op. In 2011, The Foundation added a new board seat for a member of the REI's board of directors, which helps bring continuity and alignment between the foundation and co-op. The REI Foundation receives its principal funding from REI.

The REI Foundation focuses on getting more young people into nature, with an emphasis on children and families of color. Through this work, The 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 Foundation is required by law to make grants totaling a minimum of 5 percent of its corpus each year. As a separate nonprofit entity, it files a federal 990 disclosure each year. The most recent 990 disclosure is [here](#).

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

The REI Foundation Grants



* Funding includes financial support of relief work efforts and grants made in honor of REI employee deaths

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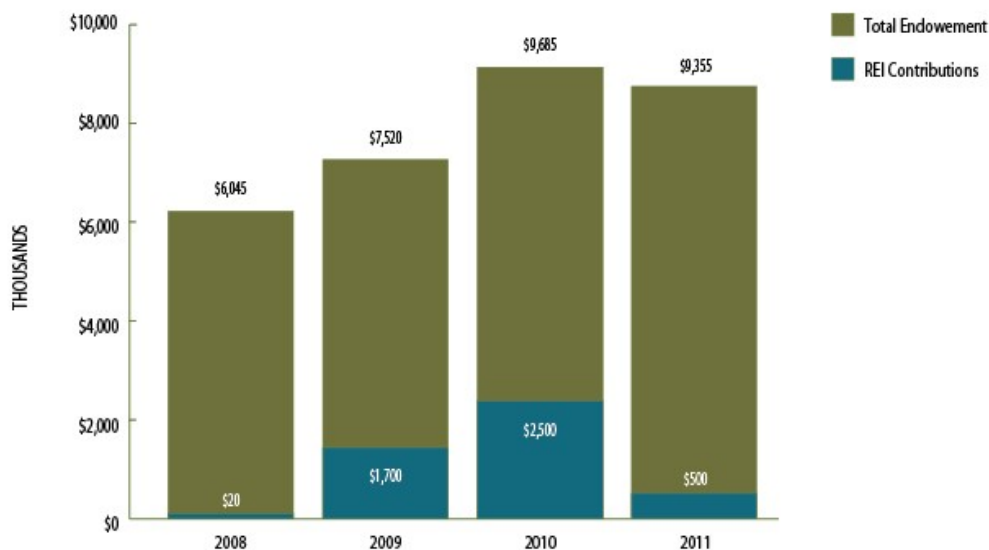
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The REI Foundation Total Assets & REI Contributions

The REI Foundation endowment changes annually based on contributions, grants and fluctuations in investment values.

In 2011, The REI Foundation gave grants totaling \$445,850 to the following nonprofit organizations:

East Atlanta Kids Club, Inc. – \$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. The grant allows them to continue their training programs and engage youth and their families in programs for running, walking, hiking and camping.

Futuro Media Group– \$125,000. The Futuro Media Group uses the syndicated radio programming of Latino USA as a national platform to enlarge and diversify the notion of those who connect to the outdoors and engage in stewardship. With the support of The Foundation, Futuro Media Group produced an environmental diary of segments that highlight Latinos sharing their connections to the outdoors.

The Mountaineers – \$50,000. The Mountaineers received The 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 be directed to The Mountaineers' Youth and Family Initiative, which includes a suite of youth offerings.

National Wildlife Federation – \$25,000. The National Wildlife Federation works to inspire Americans to protect wildlife for our children's future. The grant to the Earth Tomorrow project will build on the success of the environmental education and leadership program for Atlanta-area teens, specifically for the annual Summer Institute. Funds will also be used for hands-on environmental stewardship projects throughout the year.

Ocean Discovery Institute – \$20,000. The Foundation's funds support Ocean Leaders, a series of interconnected after-school and summer programs and support services for more than 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. Outdoor Outreach empowers at-risk and underprivileged youth through comprehensive programming and provides support, relationships, resources and opportunities youth need to become successful adults. The Foundation's funds are dedicated to its Leadership Program, a year-long intensive training giving teens the necessary skills to become a teacher, mentor and instructor on all Outdoor Outreach outings.

Outdoor Foundation – \$150,000. The Outdoor Foundation is the nonprofit established by Outdoor Industry Association to inspire and grow future generations of outdoor enthusiasts. REI Foundation's contribution will, in part, support 10 Summits held this summer and fall in cities across the United States.

WILDcoAST – \$20,000. WILDcoAST's South Bay Environmental Stewardship Campaign is restoring the Tijuana and Otay River Valleys in south San Diego County. WILDcoAST will continue to work with the City of San Diego's park rangers to promote and encourage the use of new trails and partner with the Tijuana River National Estuarine Research Reserve to conduct habitat enhancement activities.

YMCA of San Diego County – \$20,000. YMCA's Friends/Family Adventures in Nature (FAN) Club brings outdoor

experiences to fourth through sixth graders via after-school programs in San Diego County. The Foundation's grant will help fund enrichment activities at 10 local programs and 14 YMCA Camps Surf programs, and help develop a more sustainable model through trainings and mentoring to school staff and site supervisors.

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COMMUNITY**Advocacy for the Outdoors and for the Outdoor Recreation Economy**

Like many citizens, nonprofits and businesses, REI engages in public policy dialogues that affect our future. Our goal is to shape federal and state policy in a way that better enables us to pursue the co-op's core purpose and allows us to stay competitive in a rapidly evolving retail marketplace.

Generally speaking, we get involved in two types of policy matters. First, government policy can have a significant impact on 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 always able to pursue the outdoor activities they enjoy.

Second, we work on public policy matters that impact the daily business operations of what has come to be known as the outdoor recreation economy. Across the nation, thousands of businesses, large and small, make their livelihood by helping people to get outdoors and enjoy the natural environment. Some of these businesses design and sell gear and apparel. Others provide guide services, travel services and lodging. At REI, we pursue policy outcomes that support the success of this business sector.

As REI grows, we recognize that the co-op's success is more closely intertwined with policy developments. So in 2011, we hired a full-time government relations director. The co-op's government affairs program also relies on engagement by REI leaders and by political and policy consultants in Washington, D.C., the Monument Policy Group.

We also belong to several trade associations that have their own government affairs operations. We work actively with the Outdoor Industry Association (OIA) to advance the policy agenda of recreation economy businesses, 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.

Like many companies with government affairs programs, we also regularly partner with nonprofits, 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 avid outdoors enthusiasts, who try to assure their access to unique climbing, kayaking, white water rafting and other adventurous places. Bikes Belong works on policies and supports programs that make bicycling both safer and a more viable mode of transportation.

Primary Initiatives

The bulk of REI's efforts in 2011 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:

- *Continued to support the U.S. Government's America's Great Outdoors (AGO) initiative.* This is a cross-U.S. Government (USG) effort, endorsed by many NGOs and companies, that aims to implement a comprehensive conservation and recreation agenda for the 21st century (<http://americasgreatoutdoors.gov/>). At the launch of the AGO recommendations in February 2011, REI President and CEO Sally Jewell introduced President Obama, which was shared with customers on the [REI blog](#). As part of the AGO, REI's Vice President of Public Affairs, Michael Collins, has been named to a federal advisory committee tasked with guiding the creation of a 21st Century Conservation Service Corps. More broadly, we continue to work with partners and the USG to advance key AGO objectives.

- *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 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 local implementation of the federal [Recreational Trails Program](#).
- *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 have been working 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 will roll out 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 have been supporting the Outdoor Industry Association's updating of its 2006 economic impact study. In 2012, OIA intends to release new figures on the hundreds of billions of dollars our sector contributes to national GDP and the more than 6 million jobs the sector supports. The 2006 study is at http://www.outdoorindustry.org/research.php?action=detail&research_id=26.

To assure REI's product development and retail operations remain competitive in an intensely competitive marketplace, in 2011 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. In the Internet age, the burden of collecting sales taxes on online transactions is lightweight, giving online-only vendors an often substantial, 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 and footwear, 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 bad weather, have never been manufactured in the United States. The global supply chain for highly technical outerwear largely moved off-shore decades ago. Yet, the products continue to face extraordinarily high tariffs. This creates high product costs without benefit to U.S. consumers or industry. With OIA, we are advancing 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 supported the Affordable Footwear Act, which for similar reasons and with similar benefits would reduce tariffs on an array of footwear, including hiking boots and weather resistant shoes 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)

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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 Eco Working Group. From this complete view, REI has chosen at present 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](#).

KPIs/Metrics



In 2011, measurement and reporting tools were implemented to enable us to forecast, budget and review our progress in these areas. These metrics tie directly into strategic and financial planning for key REI divisions, and results are assessed quarterly by company leadership.

In this section of our report, we provide an update on our efforts in [product stewardship](#) for REI-brand gear and apparel, and our involvement in industry coalitions with the Outdoor Industry Association and Sustainable Apparel Coalition.

Comments

We welcome your thoughts on our 2011 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.

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Greenhouse Gas Emissions

November 2012: The 2011 CO2 emissions for REI Adventures travel were recalculated. Additionally, the 2011 carbon offset purchase amount for REI Adventures was misstated in our initial publication of the report. As a result, related content and visuals have been updated due to the discrepancy.

REI measures its greenhouse gas (GHG) emissions to minimize risks to our business and identify cost reduction opportunities. To measure our overall GHG emissions, we take into account [REI Adventures](#), [employee commuting](#) and [corporate travel](#), [energy use](#), [product transportation](#), [direct fulfillment](#), and miscellaneous emissions.

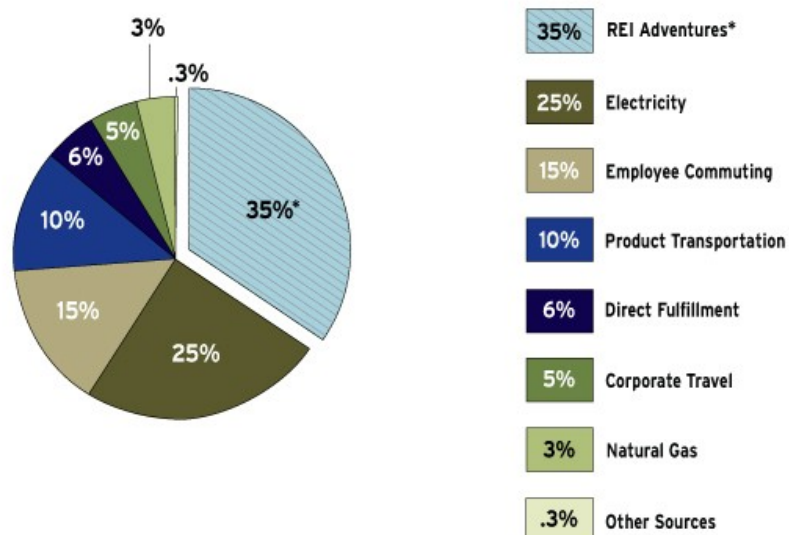
We use two terms to define climate change at REI. "Greenhouse gas footprint" is the total amount of GHGs attributed to REI converted into the equivalent amount of carbon dioxide. Our "climate impact" is the net contribution REI has on climate change, after [carbon offsets](#) are subtracted.

As one of the company's key performance indicators, our 2011 absolute climate impact target was to be flat over the prior year. At 78,397 tons CO2, we missed our goal by 4 percent, but this is lower than the company's growth rate of 8.4 percent (by sales). The CO2 increase is linked to energy use, employee commuting and in direct product shipping to our members and customers.

For 2012, our goal for company-wide operational emissions is 76,085 tons CO2, a decrease of 2.5 percent from 2011 levels. By 2020, REI aspires to be a climate-neutral company.

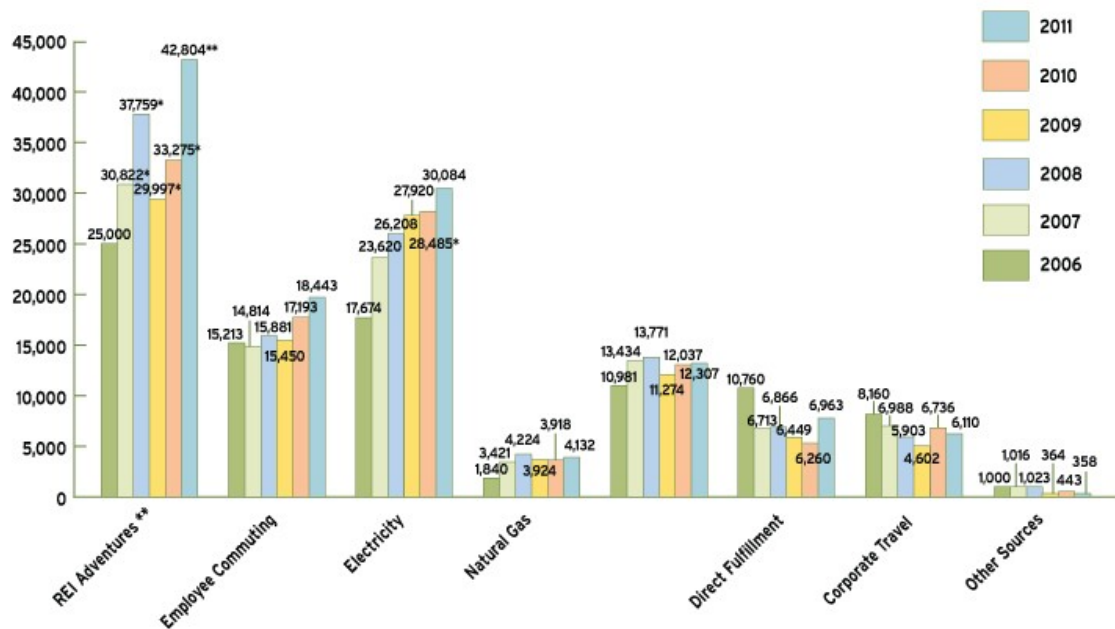
To learn more about how we measure our environmental impacts, please see the [methodology appendix](#).

2011 Greenhouse Gas Emissions

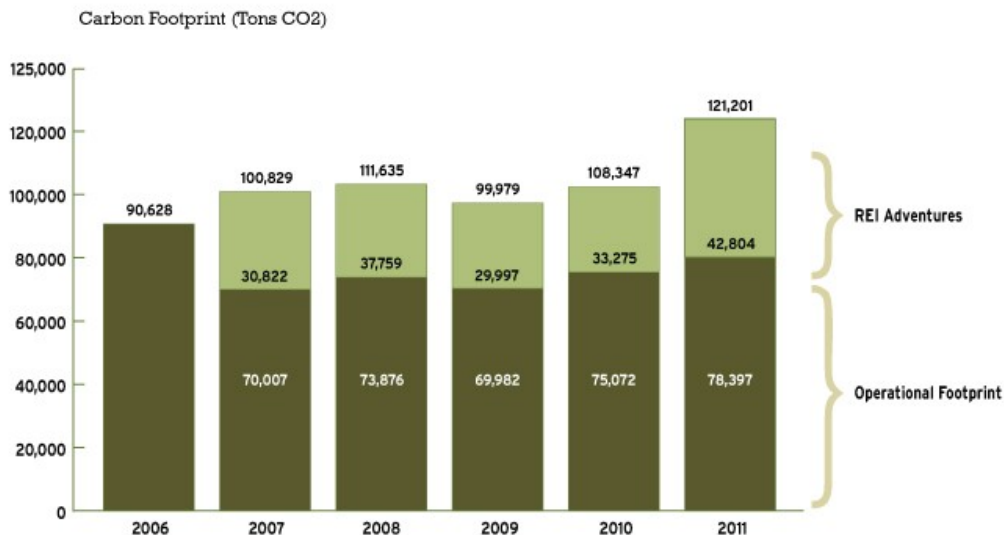


*REI Adventures greenhouse gas emissions were partially offset via a partnership with The Nature Conservancy.

Greenhouse Gas Emissions (Tons CO2)

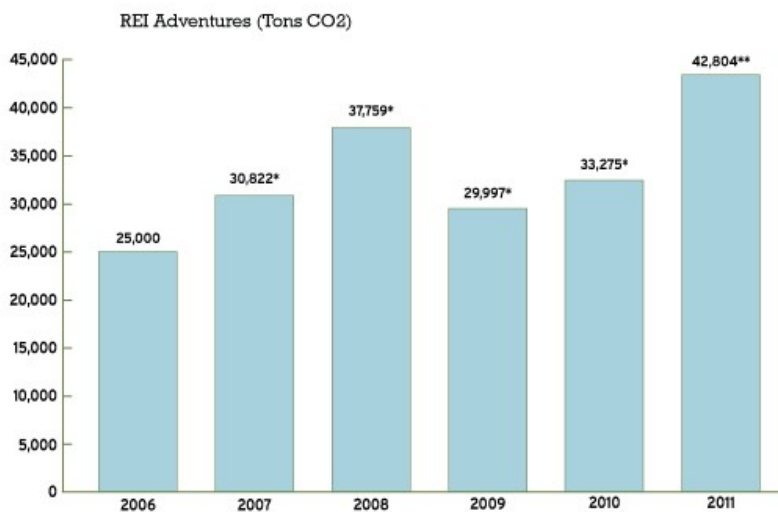


*Offset renewable energy credits
 **Partially offset via a partnership with The Nature Conservancy



REI Adventures - 35 percent of total GHG footprint

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*Offset by renewable energy credits
 **Partially offset via a partnership with The Nature Conservancy

The 29 percent increase in climate impact of REI Adventures to 42,804 tons of CO₂e, is attributed to more customers traveling with our adventure travel business. 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. This approach goes beyond typical practice in the adventure travel industry.

In 2011, we offset a portion of REI Adventures' emissions via a partnership with The Nature Conservancy's reforestation project in Bayou Bartholomew, Louisiana. The native trees store carbon as they grow over a period of more than 64 years, eventually removing more than 35,000 tons of carbon from the atmosphere. The offset value of this program is verified in accordance to the rules of the [Verified Carbon Standard's](http://www.vcs.org) Program Guidelines. Learn more about The Nature Conservancy at www.nature.org.

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Energy Use – Electricity: 25 percent of total GHG footprint, Natural Gas: 3 percent of total GHG footprint

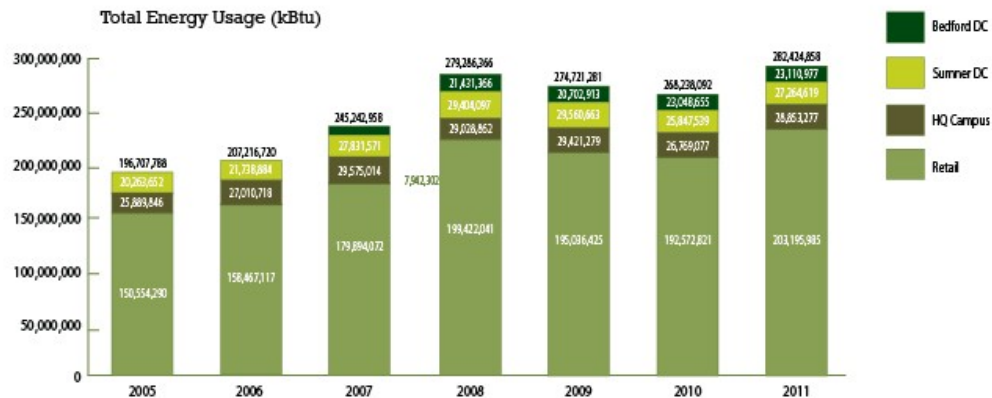
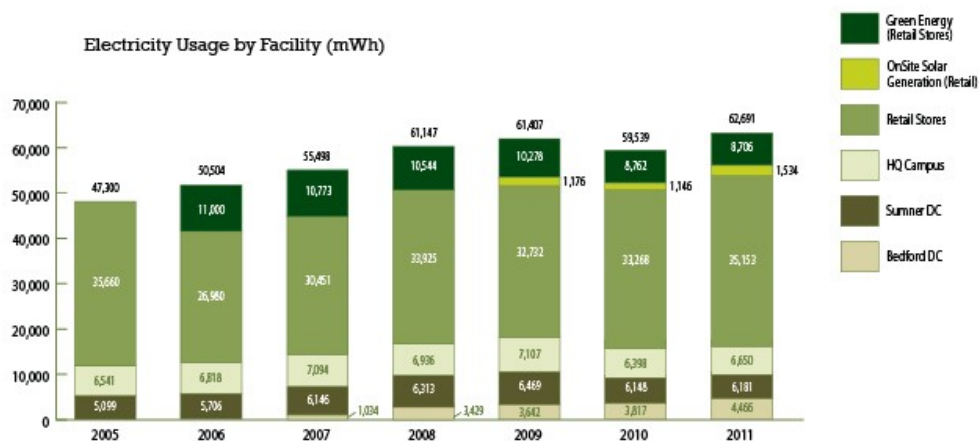
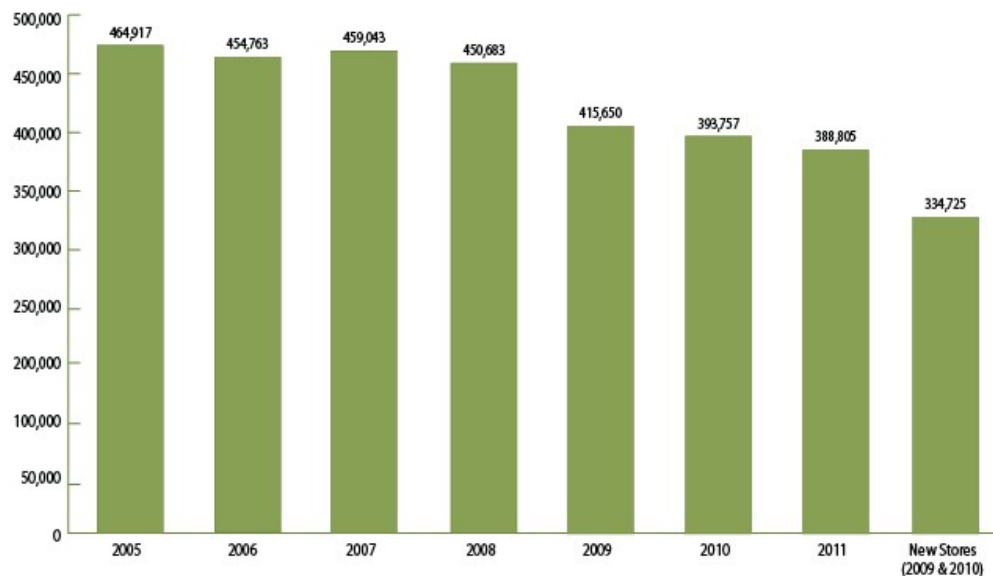
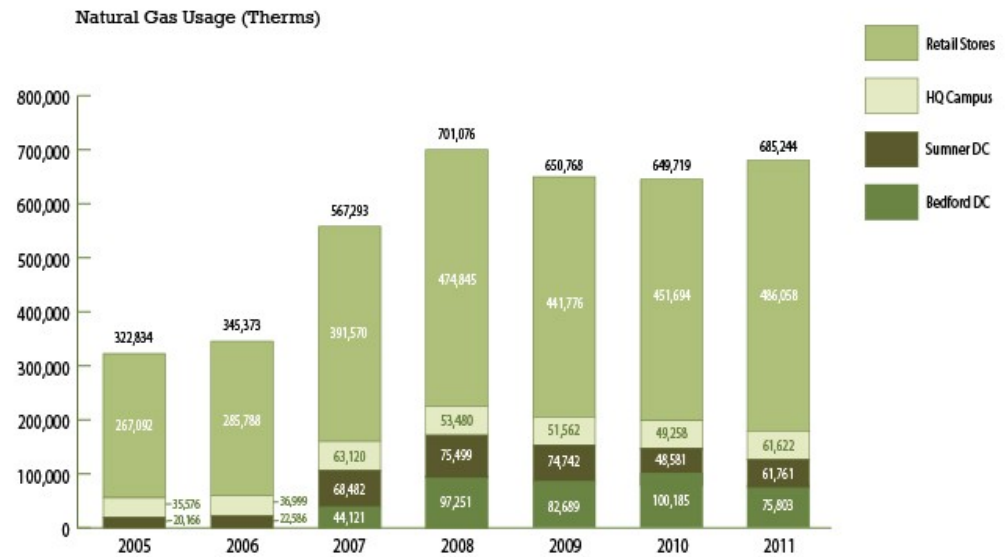
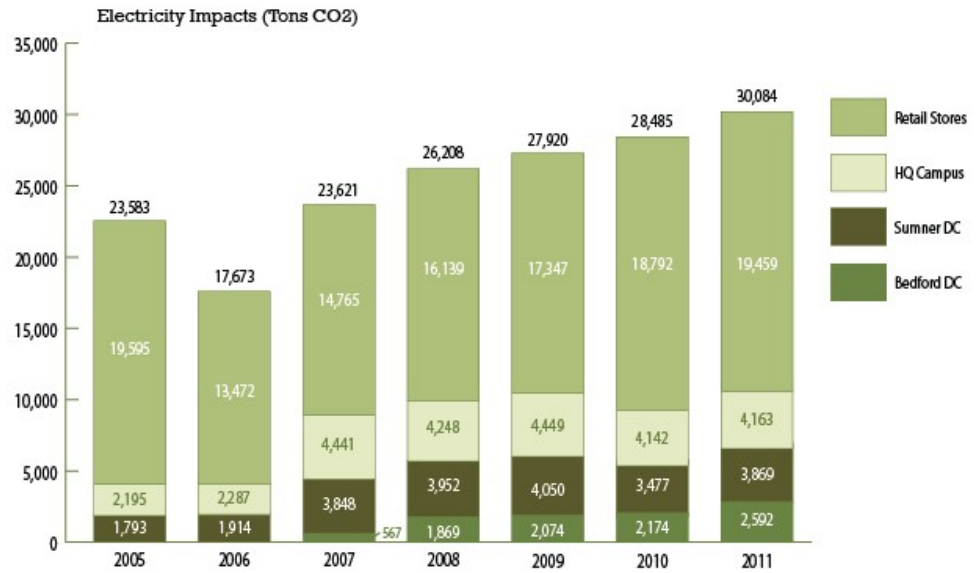


Chart combines natural gas and electricity into a common unit to illustrate total energy usage.

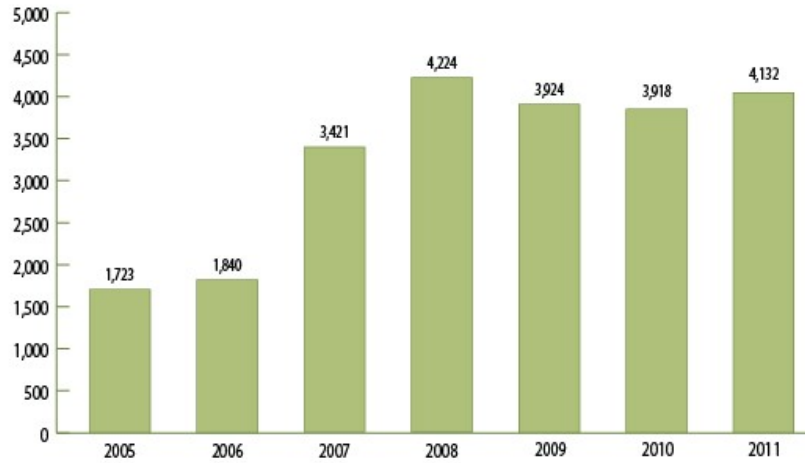


Annual Electricity Consumption per Store (kWh)





Natural Gas (Tons CO₂)



As a key performance indicator, we missed our overall energy use goal to be flat against 2010 (268,238,092 kBtu) regardless of company growth, and increased our consumption by 2.5 percent to 282,424,858 kBtu. This marks our first energy use increase since 2008.

Electricity and natural gas consumption increased in absolute terms by 4.4 percent since 2010. Approximately half of this increase was driven by air conditioning loads during the record hot summer of 2011. Although we implemented many operational efficiency improvements in existing buildings, the total reductions were about 2 percent short from compensating for our increased energy demand, which includes eight new stores.

Our relative electricity consumption for our retail stores decreased from 2010 levels by 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.

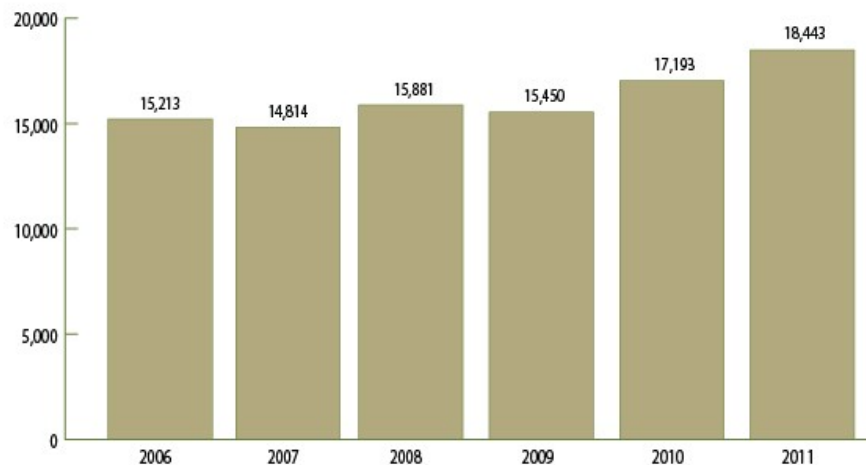
In 2011, we added solar electrical systems to 12 stores, bringing the company's total investment to 23 stores. Approximately 19 percent of our retail locations have solar systems that generate between 15 and 100 percent of their electrical needs.

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

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Employee Commuting - 15 percent of total GHG footprint

Employee Commuting (Tons CO₂)

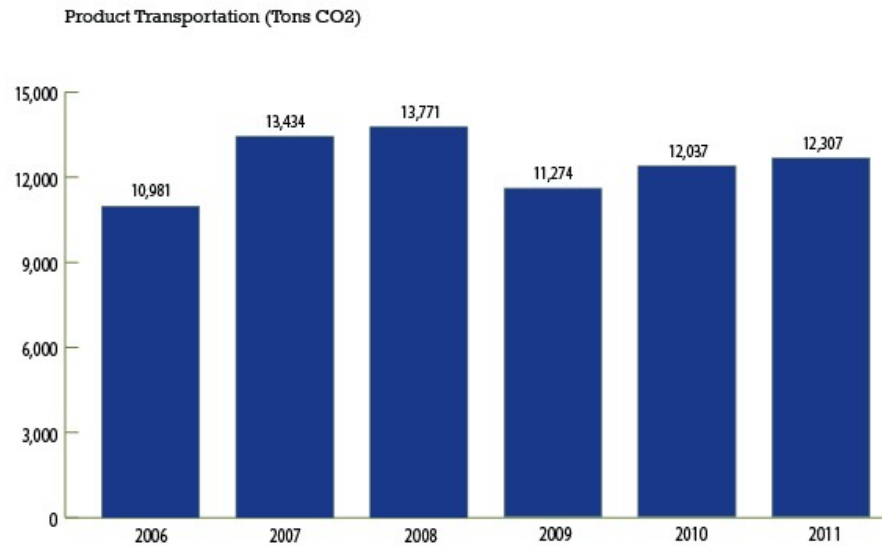


More than 1,000 employees joined REI in 2011 (nearly 10 percent of our total workforce), increasing our commuting emissions by more than 7 percent. As the co-op continues to grow, we are working to promote changes in commuting behavior through the promotion of ride-sharing and alternative commuting options and understanding the barriers to our employees' decisions to decrease their single occupancy vehicle use.

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>

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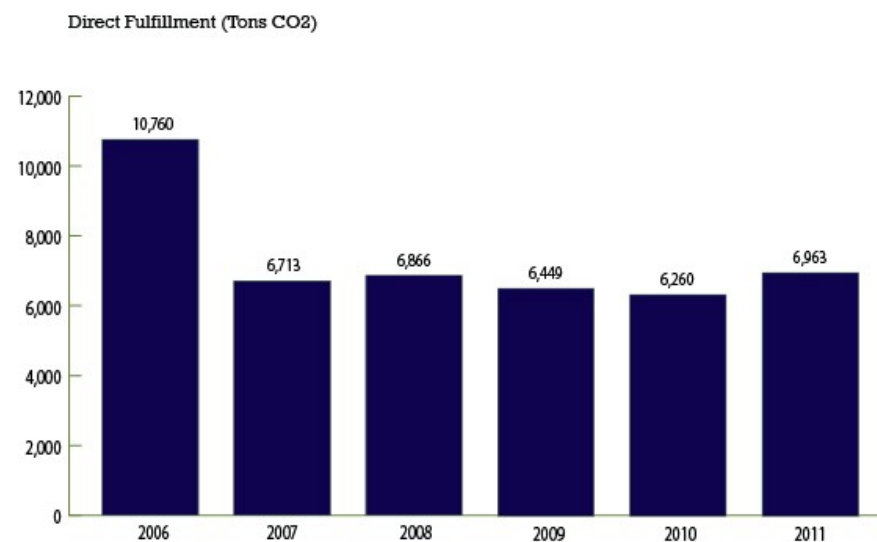
Product Transportation - 10 percent of total GHG footprint



Product transportation accounted for 11 percent of our GHG emissions, similar to 2010 and 2009. Emissions increased by 2.2 percent in a fiscal year where REI's sales grew by 8.4 percent. Our logistics team continues to minimize airfreight and increase opportunities to consolidate freight.

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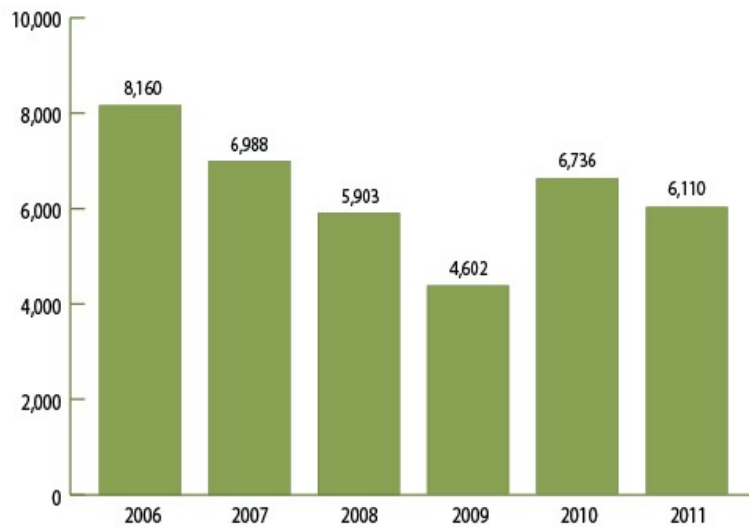
Direct Fulfillment - 6 percent of total GHG footprint



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Corporate Travel - 5 percent of total GHG footprint

Corporate Travel (Tons CO2)



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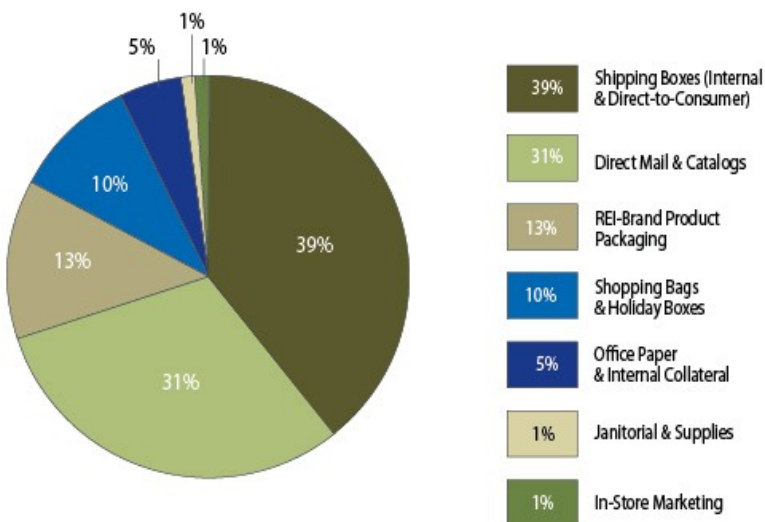
Access to healthy forests is essential for outdoor enthusiasts and core to REI's business. We use fiber and resulting paper products throughout our operations—from catalogs to cardboard and packaging to ship products, to the hang tags we place on our branded gear and apparel.

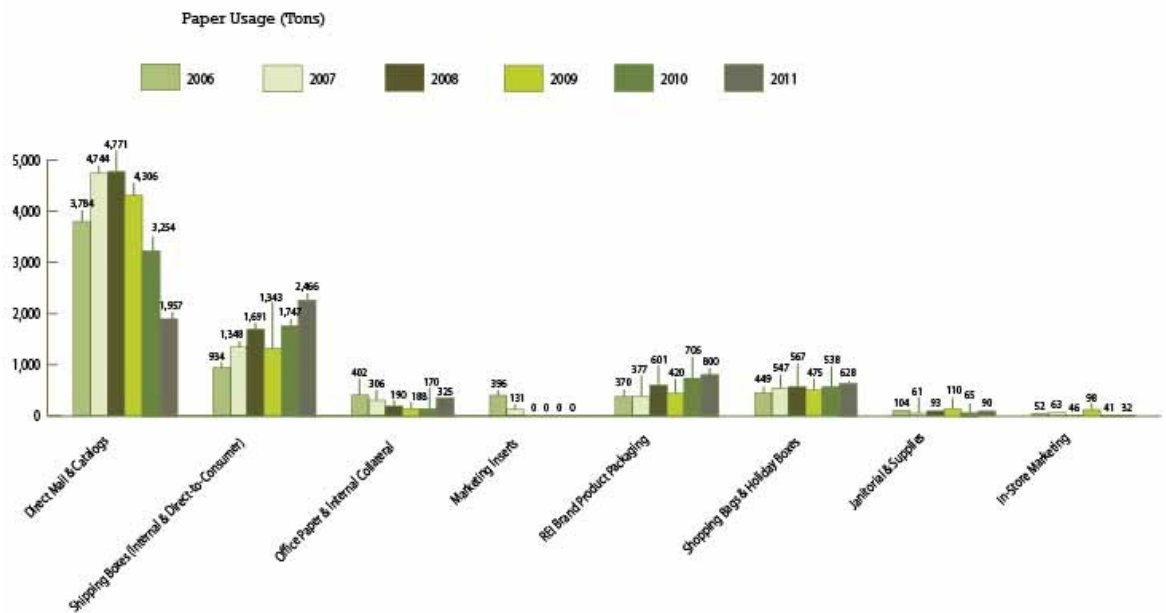
REI's [paper and paper products purchasing policy](#) is designed to reduce our environmental footprint, make visible the paper supply chain including and beyond our purchasing practices, and align our operations with our values and aspirations. We prefer to purchase paper products manufactured from 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.

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

We invite you to read more about our efforts at our [website](#) and the [REI blog](#) for a post highlighting our success in reducing packaging.

2011 Estimated Paper Usage





Paper Efficiency

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|---------|---------|---------|---------|---------|---------|---------|
| Annual Sales (MM\$) | \$1,022 | \$1,182 | \$1,342 | \$1,440 | \$1,455 | \$1,659 | \$1,792 |
| Total Paper (Tons) | 6,491 | 7,577 | 7,969 | 6,940 | 6,523 | 6,298 | 6,298 |
| Total Paper Efficiency (MM Sales \$ / Tons) | 0.182 | 0.177 | 0.181 | 0.210 | 0.254 | 0.285 | 0.285 |
| Total Virgin Fiber (Tons) | 4,828 | 5,974 | 5,806 | 5,314 | 4,560 | 3,827 | 3,827 |
| Virgin Fiber Efficiency (MM Sales \$ / Tons) | 0.245 | 0.225 | 0.248 | 0.274 | 0.364 | 0.468 | 0.468 |
| Direct Mail (Tons) | 3,769 | 3,785 | 4,744 | 4,771 | 3,626 | 3,254 | 1,957 |
| Direct Mail Efficiency (MM Sales \$ / Tons) | 0.270 | 0.310 | 0.283 | 0.302 | 0.401 | 0.510 | 0.916 |

Chain of Custody

| | Est. 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|-----------|-----------|--------|--------|--------|--------|--------|--------|
| Unknown | 29.0% | 20.0% | 10.8% | 9.0% | 6.7% | 11.0% | 13.6% |
| Known | 71.0% | 79.0% | 72.4% | 65.3% | 55.1% | 30.6% | 43.3% |
| Certified | 0.0% | <1% | 16.8% | 25.6% | 38.2% | 58.4% | 43.1% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Source of Fiber

| | Est. 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|-------------|-----------|--------|--------|--------|--------|--------|--------|
| Unknown | 16.0% | 19.8% | 11.5% | 6.4% | 6.7% | 12.3% | 14.1% |
| Undesirable | | 1.8% | 5.6% | 8.5% | 6.0% | 6.8% | 8.2% |
| Recycled | 20.0% | 25.6% | 21.2% | 27.1% | 23.4% | 30.1% | 39.2% |
| Acceptable | 64.0% | 52.8% | 50.0% | 39.0% | 36.9% | 11.0% | 12.1% |
| Certified | | 0.0% | 11.7% | 19.0% | 27.3% | 39.9% | 26.4% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Overall, our paper use dropped to 6,298 tons, the lowest level since we started reporting in 2006. This drop is related to the significant reduction in the number of catalogs we mailed during the year, which generated 1,957 tons in 2011 versus 3,254 tons in 2010.

Because the co-op's catalogs and printed materials are produced on FSC-certified materials, the large reduction in direct mail also impacted our overall percentage of FSC-certified fiber.

We are encouraged that our use of virgin fiber dropped in 2011 to the lowest level on record, or 3,827 tons. 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 65.5 percent of our total paper footprint.

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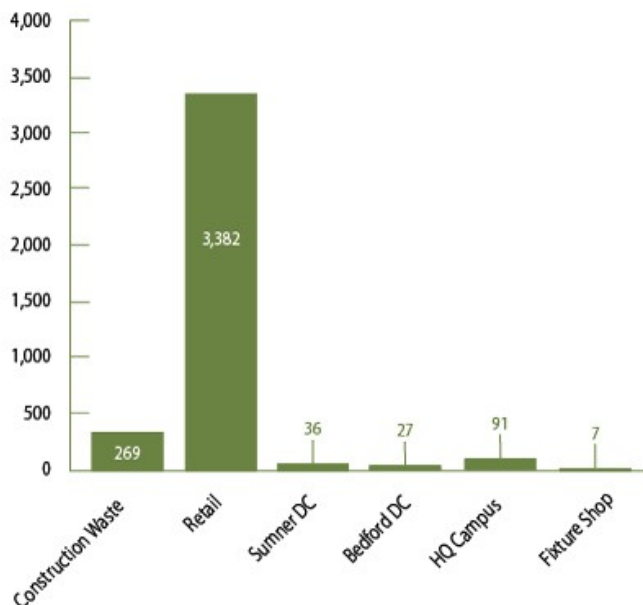
SUSTAINABLE OPERATIONS

Waste-to-Landfill

Our aspiration is to be a zero-waste-to-landfill organization by 2020. Metrics against our ability to achieve this goal have been set as a key performance indicator (KPI) within REI's business divisions and included with other business metrics, such as sales and financial performance. Progress against our KPIs is assessed by our leadership throughout the year.

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 Eco Index.

For more information on our strategy and plans to achieve our 2020 zero waste goal, 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.

2011 Waste Stream (Tons to Landfill)

In previous stewardship reports we provided results for the amounts of recycled waste in the context of tons and percentage recycled. These data points have been omitted in the 2011 report because our KPI is focused on the metric of tons of waste. Recycling and diversion remain important and help REI reduce our overall construction and operational waste-to-landfill KPI.

Construction waste from new store openings and our Madison, Wis. remodel increased our waste to landfill by 100 tons from 2010. However, the total amount of our operational waste was offset by absolute reductions of 182 tons, resulting in a decrease of 2.1 percent.

Our distribution centers continue to divert the majority of their operational waste from the landfill. The Bedford, Pa., facility

reduced its waste to 27 tons in 2011, down from 32 tons in 2010. The Sumner, Wash. distribution center reduced its 2011 waste to 36 tons, from 69 tons in 2010. This decrease is attributed to optimizing waste hauling and adding composting to the facility.

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SUSTAINABLE OPERATIONS

Product Stewardship

REI's intention is to know, share and address the environmental and social impacts of each phase of a product's life cycle – from the source of raw materials to the time the product is made to when it is sold to a customer to when it is no longer used. We are committed to disclosing that information to members in ways that are accurate, meaningful and relevant.

While we are not yet able to measure the total impact of the products we sell, we are working to validate our assumption that the collective environmental impact from our products is likely larger than the sum of all other impacts we have as a company.

Understanding and measuring the impacts of products at all phases of the life cycle is a complex and difficult task for many reasons. Chief among those reasons is that our supply chain partners often do not know or are reluctant to share deep information about the chemistry, manufacturing process and sourcing of materials. However, by working together with other brands, suppliers, academics and the NGO community, we can think differently and achieve different results.

Our primary tool for this work is the [Outdoor Industry Association's Eco Index](#), in which REI has taken a leadership role. While it is still in the early stages, over time the Eco Index promises to create consistent, industry-wide, reportable indicators and metrics of product impacts. It is our goal to use that information to improve our decisions in product design, materials selection and factory sourcing.

In the meantime, we are reporting on key efforts of our progress, including the pilot test of the Eco Index indicators.

REI-brand Products

In 2007, we introduced REI's ecoSensitive label, identifying products that were made from materials with improved environmental attributes compared to their conventional counterparts. At its peak, we offered 250 REI-brand products featuring the label.

In 2011, we discontinued the use of the label and began more broadly communicating all of our products' general environmental attributes. The lessons learned from ecoSensitive are now incorporated into a more fully developed program as part of our holistic product stewardship efforts for REI-brand products. To learn more about the history of ecoSensitive at REI and our transition to the new program, visit <http://www.rei.com/ecosensitive>.

Packaging

We have collaborated 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, we have reduced package volume, improved transportation efficiency and elimination of unwanted materials such as PVC clamshells in our branded products. We share this progress across the outdoor industry so that other brands can learn from our experiences. The results of our work are captured in other sections of this report, including reduced [transportation-related GHG emissions](#), reduced [waste](#) due to packaging and the near elimination of unknown fiber sources in our [paper packaging](#).

bluesign®

REI has been a member of bluesign technologies ag since 2008. We believe the bluesign standard is the strongest global

solution available to proactively address textile environmental, health and safety issues, specifically the impacts of chemicals in fabrics and processing. bluesign uses the principals of "green chemistry" to evaluate chemicals such as dyes and process chemicals to identify possible hazards and suggest more benign alternatives. In addition, the program requires tight manufacturing controls in mills and factories in order to be certified. We face a challenge in the rate of adoption because of the relatively small size of bluesign as an organization compared to the scale of the textile industry.

It is our intention to use vendors and products that are bluesign-approved, so our product managers are encouraged to make those choices where possible. In 2011, we began the process of gathering total textile data of core REI-brand products so we can better understand the percentage of our raw materials meet this standard and set benchmarks for improvement.

Other Brands

About 80 percent of the products we sell are manufactured by other great 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.

To that end, we are 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 product impacts.

In 2010, the Eco Working Group introduced the beta version of the Eco Index, which provides a way to begin to know and measure the environmental impact of products. Given the outdoor industry's initial results with the tool, retailers outside of the outdoor industry are also currently evaluating it for their use. To support that progress, REI, Patagonia and other outdoor companies are currently working with major retailers and global brands such as Target, Levi, Gap and Walmart in the [Sustainable Apparel Coalition](#), which has led to the development and adoption of a new tool to help designers reduce the environmental impact of products.

We are pleased to be a catalyst among our peers and other retailers to know, report and lessen the environmental impact of the products consumers purchase and use in their daily lives.

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Methodology



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

- We report on all of our operations, all of which are U.S.-based, with the exceptions of our REI Adventures trips that run in 37 countries and our quality office in Shenzhen, China.
- We include the impacts from both owned and leased facilities.
- In one notable case, we use 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, and their environmental impacts are not included in the report.
- Our report also covers our operational footprint (both direct and indirect aspects), but it does not tackle accounting the embedded environmental attributes of products in our [GHG section](#).

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](#)

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2011 STEWARDSHIP REPORT

SUSTAINABLE OPERATIONS

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.

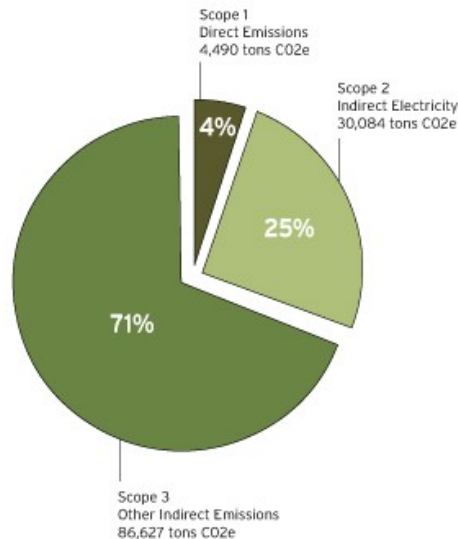
REI's carbon footprint is based on WRI's GHG Protocol, though there are some variations in our use of WRI emissions factors; especially when we have direct information about our climate impact that is more accurately representative of our footprint.

As a retailer that doesn't directly burn fossil fuels or own production facilities, we have very few direct (Scope 1) 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 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.

2011 Carbon Footprint (WRI Guidelines)



Scope 1: Direct Emissions

4 percent of REI's 2011 impact (4,490 tons CO2e):

- Natural gas usage
- Fleet emissions
 - 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

25 percent of REI's 2011 impact (30,084 tons CO2e):

- Electricity usage

Scope 3: Other Indirect Emissions

71 percent of REI's 2011 impact (86,627 tons CO2e):

- REI Adventures' customer travel
- Employee commuting
- Product transportation
- Direct fulfillment shipping
- Corporate travel
 - Air travel
 - 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 [eGrid2010](#) 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.

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:

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.

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. 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), 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 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, carrier, or class of air travel (economy vs. business or first class). Our calculations are more conservative than most, meaning that they generally overestimate the climate impact compared to other methodologies. 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 2011, we combined our employee headcount data with our fifth 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 for 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 2011, 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, Pittsburgh, and Manhattan.
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:

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.

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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.

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.

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SUSTAINABLE OPERATIONS

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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SUSTAINABLE OPERATIONS**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 the 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.

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WORKPLACE



Workplace

Every day, REI's more than 11,000 employees represent the co-op's brand, culture and values through their 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.

We're proud to be a nationally-recognized employer, providing our employees with an inclusive, welcoming workplace and supporting them with a wide variety of programs and benefits.

Through our comprehensive [pay and benefits package](#) and [diversity and inclusion efforts](#), we continue to underscore our commitment to overall [employee engagement and retention](#).

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 15 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 2011 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.

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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.

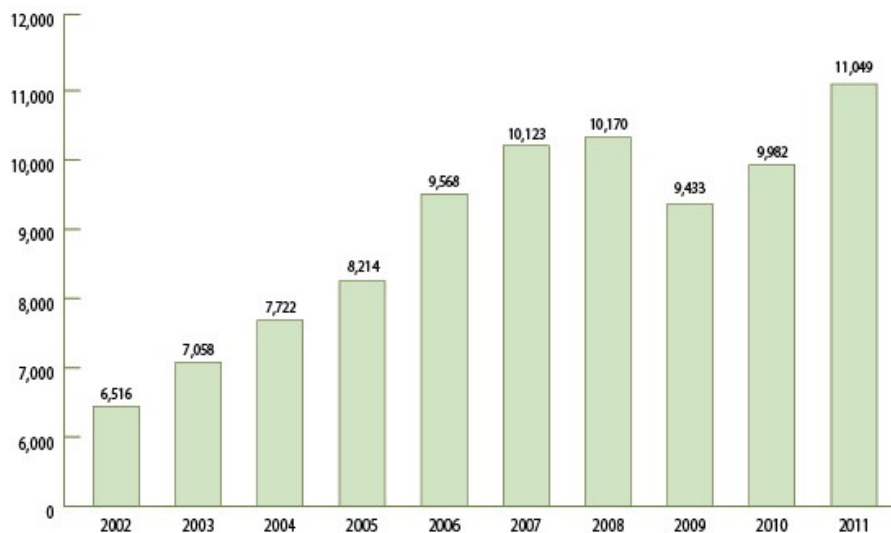
Employee Engagement Survey

We measure employee engagement each year 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.

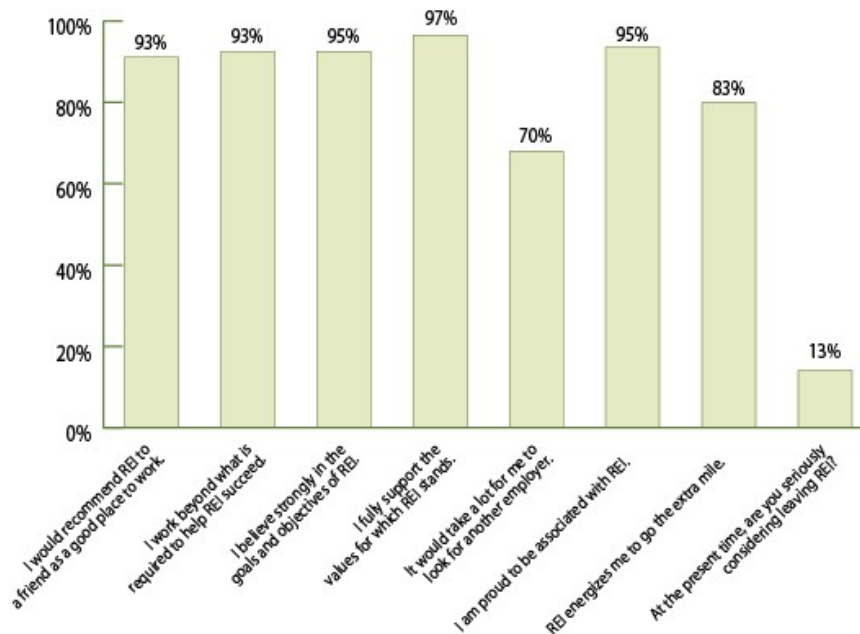
REI has historically had an impressive employee survey participation rate, and 2011's response rate was strong at 85 percent. Overall survey results showed that 87 percent of our employees are engaged. This engagement rate is calculated by looking at the favorability rating in eight key areas that make up our employee engagement index, shown below:

Overall Employee Count*



*Counts are based on the first pay period of December.

2011 Employee Engagement Index (Total Favorable)



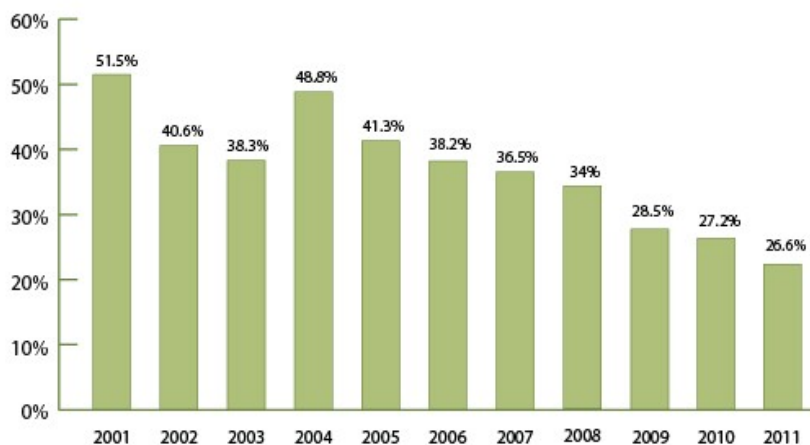
High engagement means that employees say that they are connected to REI values, committed to being involved, motivated to drive success and are planning to stay with the company. These attributes help qualify that employees feel satisfied at work and contributes to other strong indicators, including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

Turnover & Retention

Despite ongoing high employee engagement, we realize that the effects of the challenging economy, high national unemployment and limited job growth also play a role in our strong employee retention.

In 2011, REI overall turnover was 26.6 percent, a 0.6 percent drop from 2010 and an all-time low for the co-op. It's also far below the average retail industry rate of 63 percent.

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.

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 2011 retention rate was 79.4 percent, as compared to 79 percent in 2010. 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.

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.

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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. In 2011, building on prior years' efforts, the co-op rolled out a five-year diversity and inclusion plan, approved by REI's senior leadership team and board of directors. As part of this effort, the co-op also hired its first director of diversity and inclusion, whose primary focus is to ensure we have aligned strategies across the co-op.

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

We value what we have learned from listening to our current and potential customers. Through our 2011 Diversity Customer Insights Study, we deepened our intelligence about the outdoor enthusiast market across the spectrums of race and age.

The study's objectives were to understand differences in outdoor activity participation, learn more about the attitudes and behaviors toward the outdoors among racial and ethnic groups, and gain a sense of the size of current and future markets.

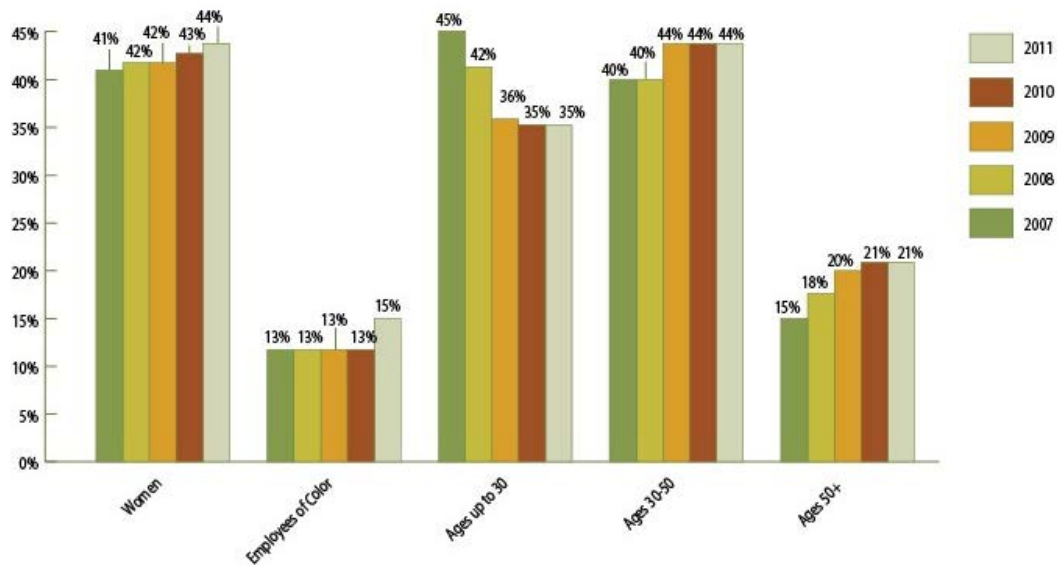
Research with overrepresented samples of Black, Latino/a and Asian outdoor enthusiasts included an online survey (with more than 3,000 participants) and targeted focus groups.

The findings increased our understanding of our current and future customers and help us recruit employees that reflect our diverse customer base and positions REI to serve customers in a more culturally relevant way.

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 2011, we employed an increasingly diverse workforce, as shown in the chart below.

Employee Demographics

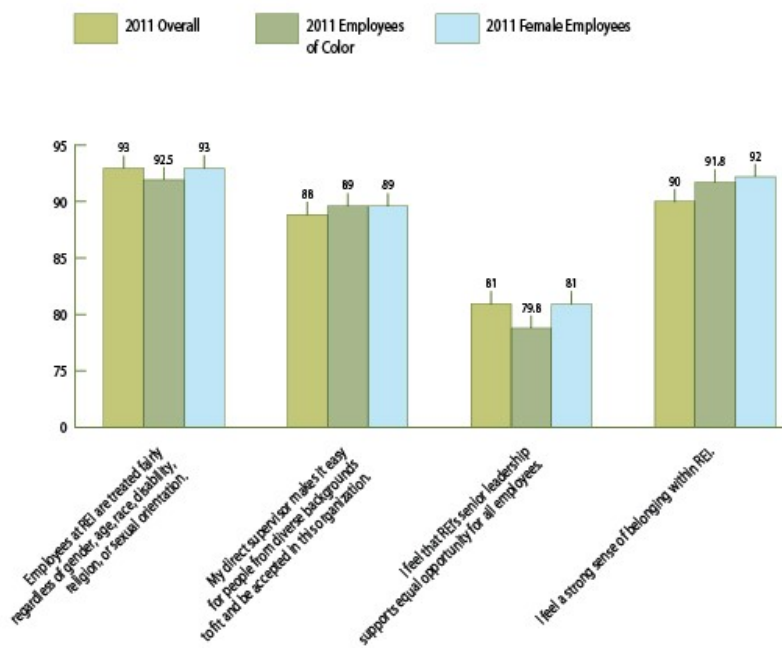


During a four-week period in the summer of 2011 we continued our commitment to develop our employees by delivering "Leading Inclusion," a day-and-a-half training designed to sustain and expand REI's respectful and inclusive workplace and shopping experience.

As the single largest investment ever made in a retail training at REI, 600 retail store management team members participated via 24 sessions in 12 cities across the country. These managers in turn delivered a 90-minute "Inclusion at REI" module to their entire store team. We are working to deliver this training co-op wide.

We believe that our commitment to an inclusive workplace and customer experience is extremely important, and this has led to industry-leading scores for inclusion on our 2011 employee engagement survey:

2011 Employee Inclusion Index (Total Favorable)



Partnerships

REI is working to build relationships with diverse communities. Efforts in 2011 included the pilot phase of diversity

community outreach programs in Atlanta and Southern California. These pilots focused on inspiring and increasing outdoor recreation and participation via environmental stewardship activities within the Black and Latino/a communities. The pilots drove engagement with more than 70 organizations. In total, the co-op has invested more than \$450,000 over three years in this effort.

We used the insights from these pilots to train our outdoor programs and outreach teams on how better to facilitate relationships with new audiences in their markets. We are using the assessment from the pilots to build an interactive toolkit for 2012.

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Pay & 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 remarkable in our industry. [Click here](#) for a more detailed overview of the employee benefits program.

Health Care Coverage

We believe it's important to offer *all* employees affordable health care benefits. 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

Part-time employees who work fewer than 20 hours per week can enroll in health care coverage through the PaTH (Part Time Healthcare) program. PaTH is exceptional in the retail industry, as most retailers do not subsidize coverage for their part-time employees. 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.

More than 20 percent of eligible employees participate in PaTH medical coverage; the industry average for this type of plan is 10 percent. More than 1,000 employees were enrolled in PaTH at the close of 2011, up from 952 in 2010.

Flex Plan Health Care Coverage

Our Flex Plan has three medical plan options—each with different features and price points. One option is 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 2011.

In order to keep health benefits affordable for both our employees and REI, we're implementing a sliding scale premium structure for employee contributions in 2012. 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 54 percent of REI's employees fall into the first pay band, with the first two pay bands covering more than 70 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 2011, we continued to evolve REI Health Quest, a confidential, points-based wellness incentive program that helps employees focus on their health.

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 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.

When employees complete health engagement activities throughout the year, they accumulate wellness points. Once they

reach a milestone level, they're rewarded with an REI gift card and at the highest level, a wellness day off. In 2011, we simplified tracking and the points system, and added new challenges.

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. We have seen a 42 percent increase in the use of our commuter benefits in the past year.

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 5 percent contribution 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 2012, REI funded more than \$13 million in contributions based on the company's performance in 2011. More than 5,500 employees received the guaranteed 5 percent company retirement contribution plus 2 percent in discretionary profit-sharing contributions. 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. In 2012, 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 2012, all eligible employees shared an incentive plan payout of nearly \$15 million. In 2012, REI introduced a new employee incentive plan, the Summit Incentive Plan, which focuses solely on team and co-op performance.

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Factory Fair Labor Compliance

REI's commitment to stewardship is specifically called out in our core purpose. Respect of others is one the co-op's six values, which serve as the foundation for how we conduct business, serve members, and treat each other.

In REI's practice of stewardship and respect, the proper treatment of workers is a key tenet. To advance this practice, the Fair Labor Compliance (FLC) team partners with departments across the co-op as it implements fair labor strategies. In particular, the Sourcing and Fair Labor teams collaborate on process alignment, supplier approvals, and audit remediation.

REI's FLC program has a unique element – a group of five top executives serve as the Fair Labor Oversight Committee (FLOC). The FLOC monitors program development and is consulted on key, strategic decisions. While the FLC team reports directly to REI's general counsel, the FLOC has reporting responsibilities directly to the Audit & Finance Committee of REI's board of directors.

In January 2011, the FLOC approved FLC's first-ever strategic plan. The plan is composed of four key dimensions:



Audits and Capacity Building

Each year, REI audits a number of the factories where our branded products are manufactured. Since resources are limited, REI elects to audit a percentage of the "tier one" factories in our supply chain. REI identifies "tier one" as the location where final assembly occurs. In 2011, the supply chain for REI-brand product consisted of 133 factories. Of those, we audited 28 factories, or 21 percent of our supply chain. To reduce the burden on factories of redundant audits, we obtained eight of the 28 audits from other brands that maintain high standards for factory compliance.

Audit data and findings are uploaded in a shared industry database. REI then asks suppliers to identify the root cause of each finding, develop a corrective action plan, and commit to specific completion dates. The REI fair labor analyst consults regularly with suppliers throughout the process until the factory attains a status rating of "continuous improvement."

The following Factory Code of Conduct violations were routinely identified during the audits:

- Lack of transparency in record keeping
- Inconsistencies in, and unavailability of, payroll records, such that auditors could not verify hours worked and related compensation
- Lack of policies and procedures to protect workers' health and safety and prevent discrimination, harassment, and abuse
- Lack of worker education generally and, in particular, with respect to freedom of association and grievance procedures

The following chart illustrates the categories of non-compliance with REI's Factory Code of Conduct.

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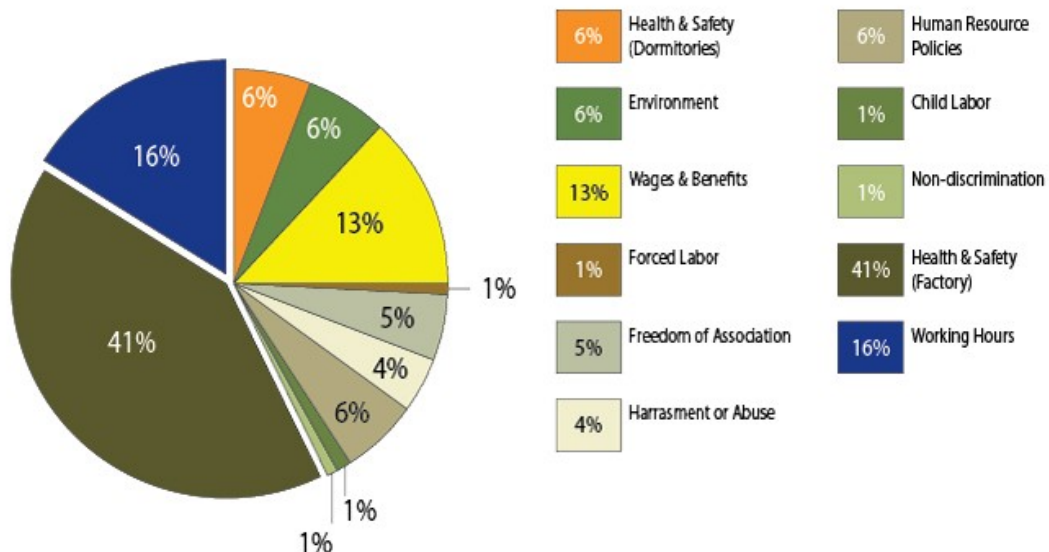
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2011 Summary of Code Violations by Type



In addition to the Code of Conduct violations, the following trends were identified by monitors, factory owners and non-governmental organizations:

- China continues to be a high-risk country from a labor perspective
- As vendors gain an appreciation for the importance of worker retention, their factories are paying higher than minimum wage (for regular hours) throughout China and Vietnam
- Overtime is not properly calculated or paid and some employees continue to work off the clock on Sundays and evenings
- Factory owners are voicing concern about the demanding behavior of third-party auditors, as their approach is counter to their interactions with brands

Internal Process Improvement

The FLC team and the FLOC created a formal series of escalation plans that provide a roadmap for consistently remediating difficult situations.

In addition, the FLC team and the FLOC focused on the persistent lack of transparency of factory management in disclosing accurate payroll information. Although this has historically been a common problem for REI and most brands, 2011 was the first year REI exercised a step-by-step remedial plan co-developed by the FLC team, Sourcing, and the FLOC. REI asked for cooperation on key action items from factories and vendors that would bring their facilities into compliance. The work is still ongoing and the results are still to be determined. Working through this process has strengthened the communication and collaboration between the FLC team and the Sourcing team.

Training and Awareness

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](http://www.rei.com).

External Collaboration

Associations

In 2011, REI actively participated with these associations:

- Fair Factories Clearinghouse
- Outdoor Industry Association Social Responsibility Working Group
- The Sustainable Apparel Coalition Social Labor Working Group

Business for Social Responsibility



Service Providers

In 2011, REI engaged the services of third-party consultants for audits and capacity-building events, as follows:

- Openview, Inc., based in Hong Kong, specializes in China auditing and capacity building. Openview conducted audits in China and Indonesia
- Level Works, Inc., based in Hong Kong and San Francisco, conducted audits and Health and Safety Trainings in China and Mexico
- Global Standards, based in Hanoi, Vietnam, conducted audits in North Vietnam
- The International Labor Organization, based in Geneva, Switzerland, oversees the Better Work Programs in Cambodia, Indonesia, and Vietnam in which REI participates
- The president and founder of The Cahn Group gave a presentation to REI on the elements and attributes of a credible human rights program. REI is working with The Cahn Group in implementing grievance procedures at the factory level.

As REI developed the Fair Labor Compliance Program in 2011, we recognized and reinforced to two key components of success: collaboration with other companies, retailers, associations, and non-government organizations and a seamless and continuous path of communication between the Sourcing and the Fair Labor teams.

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The inclusion of stewardship in REI's core purpose statement is deliberate and intentional.

Stewardship is how we act on our love for the outdoors. Our employees enthusiastically "inspire, educate and outfit" others for a lifetime of outdoor adventure and they embrace the co-op's stewardship ethos as the way we do business.

Our commitment includes a wide range of efforts across REI, including working with nonprofit partners in the communities where we do business, collaborating with our industry peers to address the environmental footprint of our products, and using the lens of social and environmental responsibility in running our business.

We invite you to read our annual stewardship report, which outlines the co-op's successes and challenges during the 2011 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 2011 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.

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



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