

2013 STEWARDSHIP REPORT

OUR COMMITMENT



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

Now in its eighth year, our annual stewardship report is published to provide transparency in our actions and hold ourselves accountable with employees, members, customers and others.

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

We invite you to read our report, which outlines the co-op's successes and opportunities during the 2013 calendar year. The content is structured into four sections—[Community](#), [Sustainable Operations](#), [Product Sustainability](#) and [Workplace](#). A [table of contents](#) is also provided for quick reference and an [infographic](#) highlights several important milestones of our work. A PDF of the 2013 Stewardship Report is available [here](#).



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Letter from Jerry Stritzke, REI President and CEO

April 2014

Caring for the world around us is woven into the very fabric of REI. Whether it is making business choices to lower our carbon footprint or auditing the factories that make the gear and apparel that bear the REI name, we strive to reflect the co-op's values as a responsible company in many ways every day.

I'm pleased to share our 2013 annual stewardship report with you. It represents an important opportunity for REI to be accountable to our members and our community, and an invitation for you to join us in caring for the places where we play, work and live.

Our report is divided into four main sections that guide you through the co-op's social responsibility work. The [Community section](#) includes a discussion of our commitment to supporting local partners as they work to preserve precious open spaces. We were pleased to share more than \$3 million in 2013 to help fund their work.

The [Sustainable Operations section](#) details our efforts to reduce our impact on the planet. I'm especially proud that last year we began purchasing renewable energy credits to match our energy use. That means that in addition to the green energy generated by the solar installations at several of our stores, we purchased environmental benefits of wind power by buying Green-e certified renewable energy certificates, making REI 100 percent renewably powered today.

We hold ourselves to an exacting standard when it comes to bringing high quality gear and apparel to our members and customers. This includes where and how products are made. The [Product Sustainability section](#) shines a light on the challenges of the product lifecycle, from design through end-of-use. REI is fortunate to partner with colleagues in the outdoor industry to make real and significant progress in understanding and managing the environmental and social impacts of the products we sell. We will always have work to do in the arena of product sustainability, but our focus is unwavering.

Last, REI wouldn't be the amazing place it is without the 11,000 employees who inspire, educate and outfit our members. The [Workplace section](#) outlines the ways we support the people who bring their passion for the outdoors to our members and customers every day. I am in my first year as REI's CEO and as I travel to our stores across the U.S. I continue to be impressed by our employees' talent and dedication, and the way they share their love of adventure.

Thank you for your interest in REI and in our work to assure that generations to come will have awe-inspiring outdoor places to discover and enjoy.

Sincerely yours,

Jerry Stritzke
President and CEO



About the Report

Defining Stewardship

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

Specifically, our efforts are designed to:

- Facilitate the active conservation of nature
- Inspire the responsible use and enjoyment of the outdoors
- Enhance the natural world and our communities and the places in which we work through responsible business practices
- Foster opportunities for outdoor recreation, with a focus on young people
- Maintain REI as an employer of choice, where employees are highly engaged and reflect the diversity of our communities

Why We Report

REI publishes an online stewardship report to be transparent in our social and environmental efforts and to hold ourselves accountable to our members, customers, communities and employees. REI's eighth stewardship report covers the co-op's activities and performance related to these areas during the 2013 calendar year. The performance metrics and data contained within this online report include our operations, facilities (headquarters, distribution centers and retail locations), some aspects of supply chain manufacturing, and adventure travel.

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

Report Structure

REI's 2013 stewardship report is organized into four content sections: [Community](#)—philanthropy programs, nonprofit partnerships and advocacy efforts; [Sustainable Operations](#)—initiatives and efforts to reduce our overall impact on the planet; [Product Sustainability](#)—programs to create a safe, fair environment in the factories that produce REI products, and collaborative work with industry peers to create more sustainable products; and [Workplace](#)—the co-op's workplace priorities and programs. 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 2013 stewardship report, we built on the foundation we established in our first seven reports. The scope of our reporting is for calendar year 2013, 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 plan also served as a basis for determining relevancy.

Comments

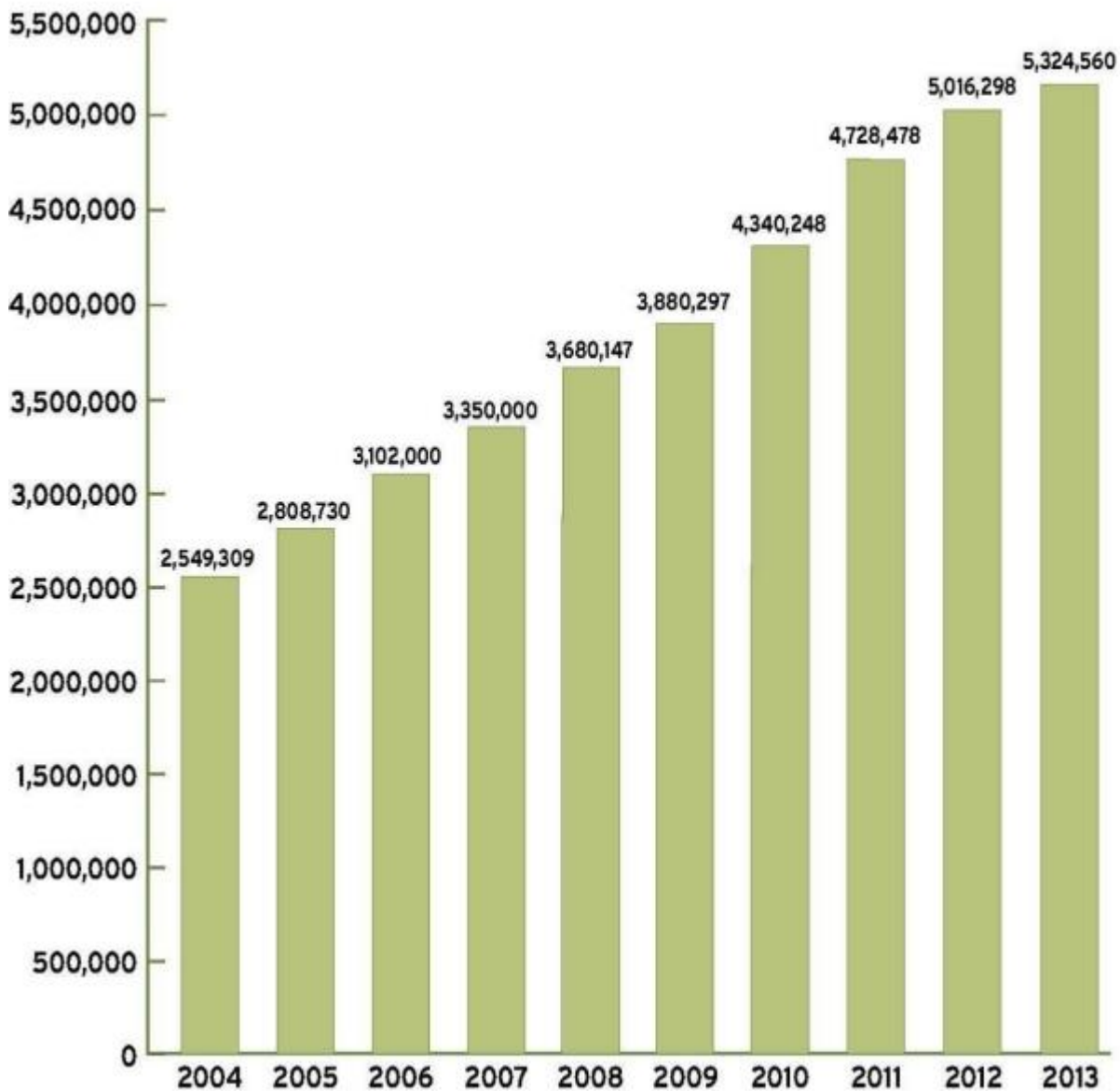
We welcome your thoughts on our 2013 stewardship via email at stewardship@rei.com. Your feedback supports our goal of providing information that is relevant and important to our members, customers, partners, employees and others.



Quick Facts About REI

Each year, the co-op publishes its [audited financials](#) on REI.com. Additional details on REI's selected pro-forma results reported below are available in our [annual financials press release](#).

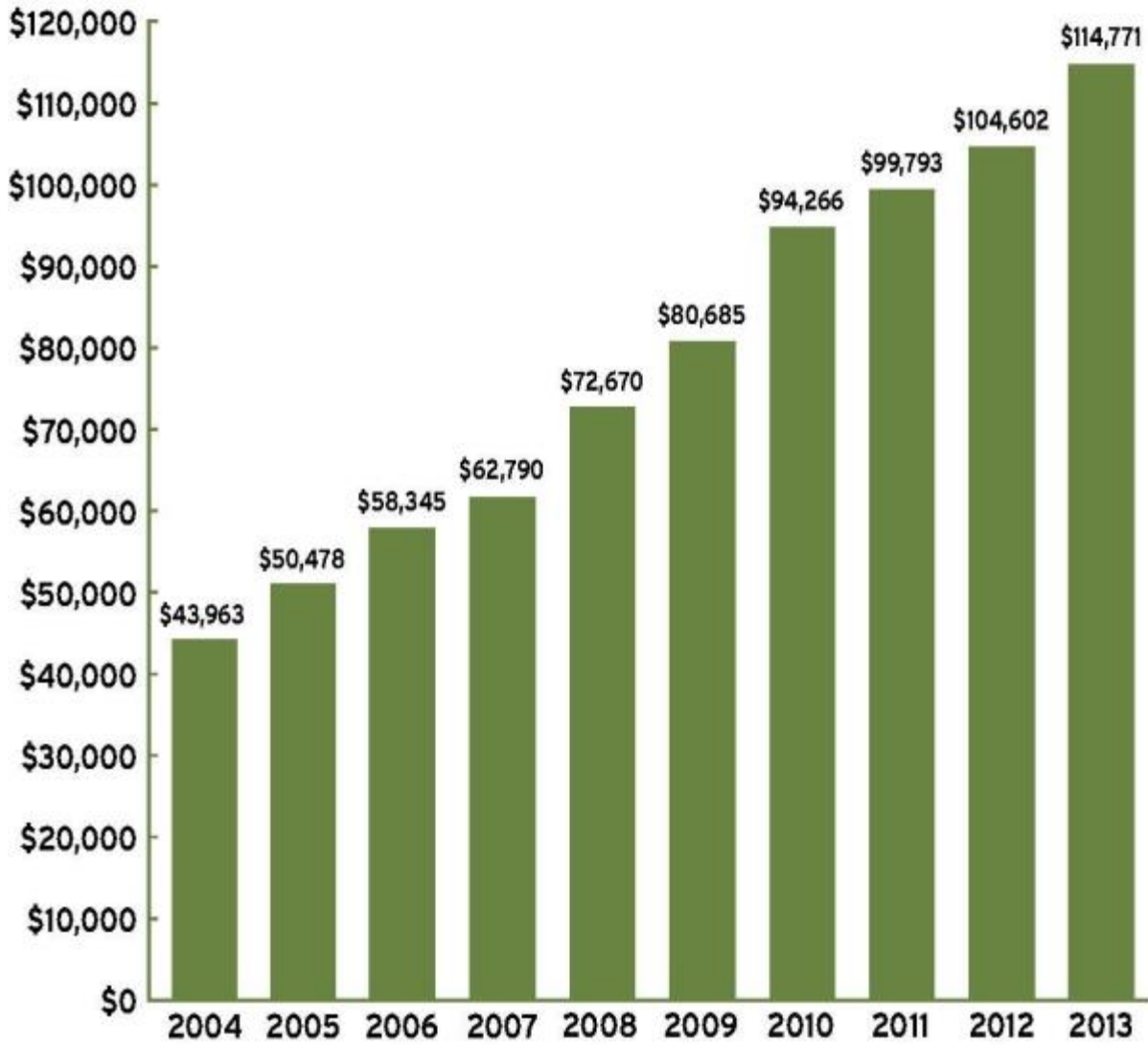
Active Members*



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

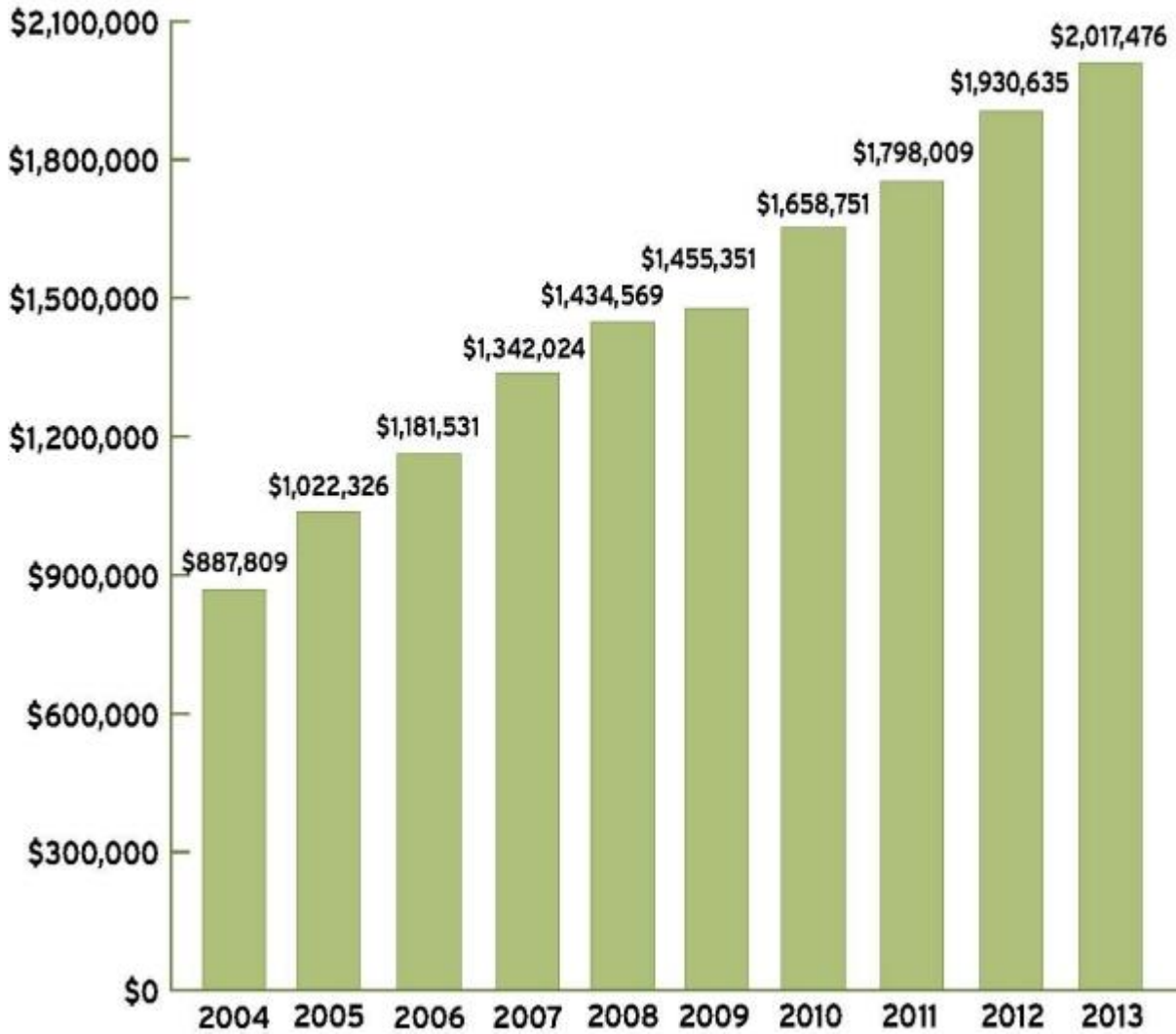


Member Dividend (in thousands)



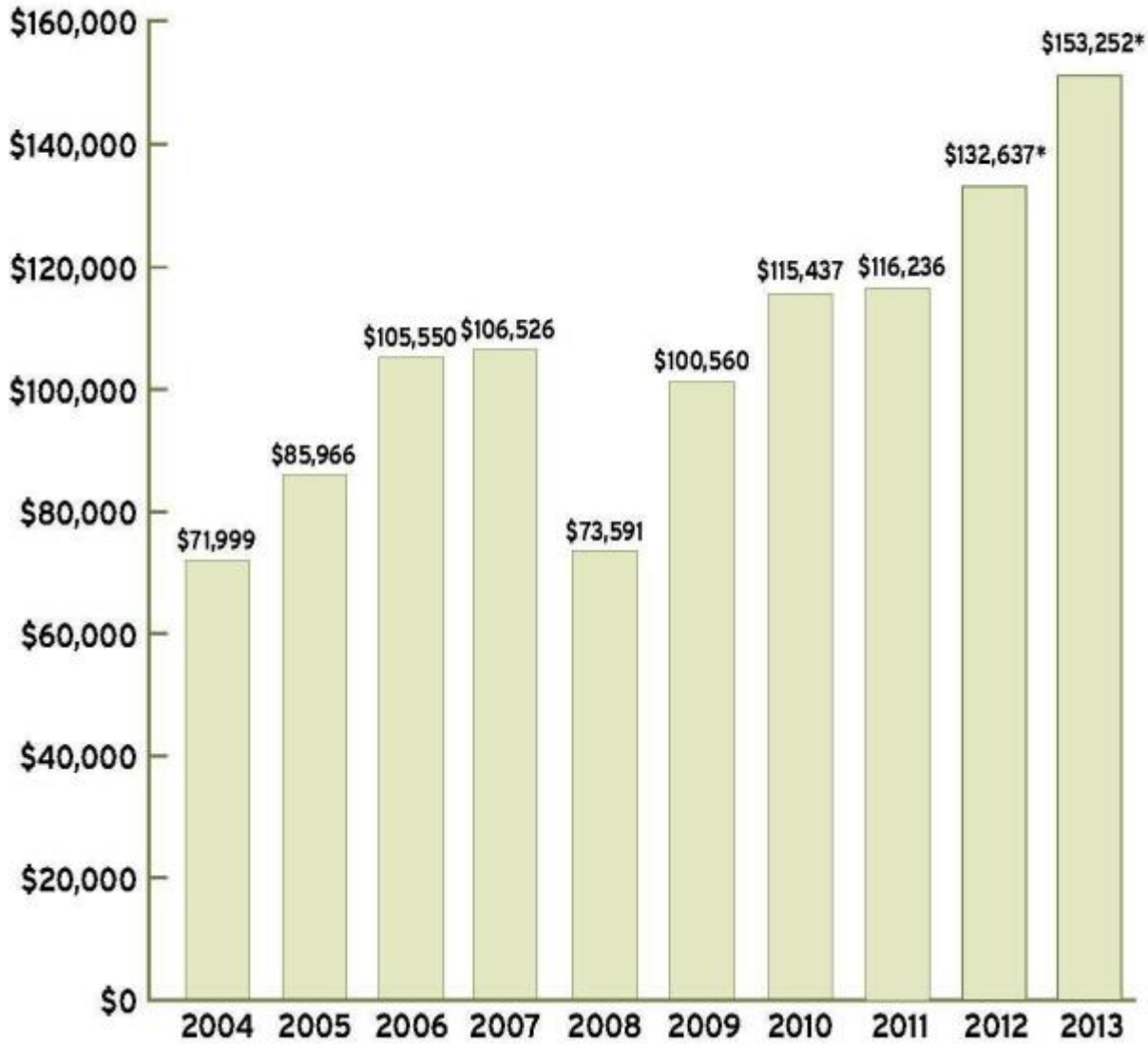


Sales (in thousands)





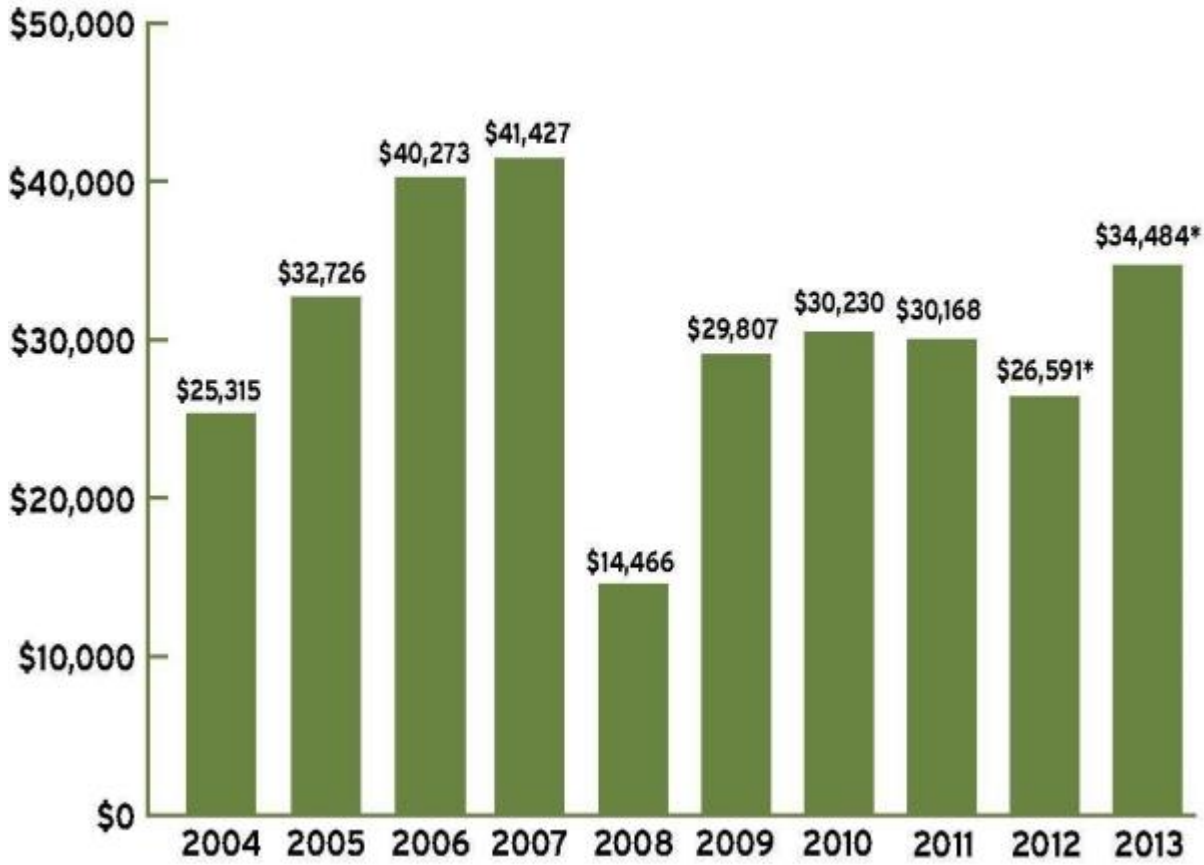
Operating Income (in thousands)



*Pro-forma results



Net Income (in thousands)



*Pro-forma results



REI in the Community

Demonstrating Our Care for Outdoor Places

At REI, we are passionate about the outdoors. We understand that for the co-op to continue to thrive, we need to ensure that our members today and tomorrow have ample access to great recreational opportunities. We want to have a meaningful, positive and lasting impact on the places where our customers live, work and play.

The outdoors is a really big place, and we can be most effective when we collaborate with local and national nonprofits that share a similar vision. Often, those collaborations start in an REI store, with our employees, and focus on accessible and popular outdoor parks and places. We also know, however, that public funds and government policy dramatically impact where and how people can enjoy the outdoors.

This section of our report highlights [our corporate grants and community partnerships](#), programs supported through [The REI Foundation](#) (a separate 501(c)(3)) and [our advocacy efforts](#).

Comments

We welcome your thoughts on our 2013 stewardship via email at stewardship@rei.com. Your feedback supports our goal of providing information that is relevant and important to our members, customers, partners, employees and others.



Corporate Grants & Community Partnerships

Since 1976, REI has provided more than \$44 million to nonprofit organizations that share our goal of stewarding and enhancing our country's outdoor recreational places. In 2013, we donated \$3 million to more than 240 local and national groups that take care of parks, trails, rivers, crags, waterways and beaches. To read a list of our local and national grant recipients [click here](#).

For locally focused grants, our retail stores endorse trusted nonprofit partners, who are then invited to apply for an REI grant. Grant applicants are evaluated based upon their ability to successfully maintain and enhance diverse, accessible and popular areas where our local members recreate.

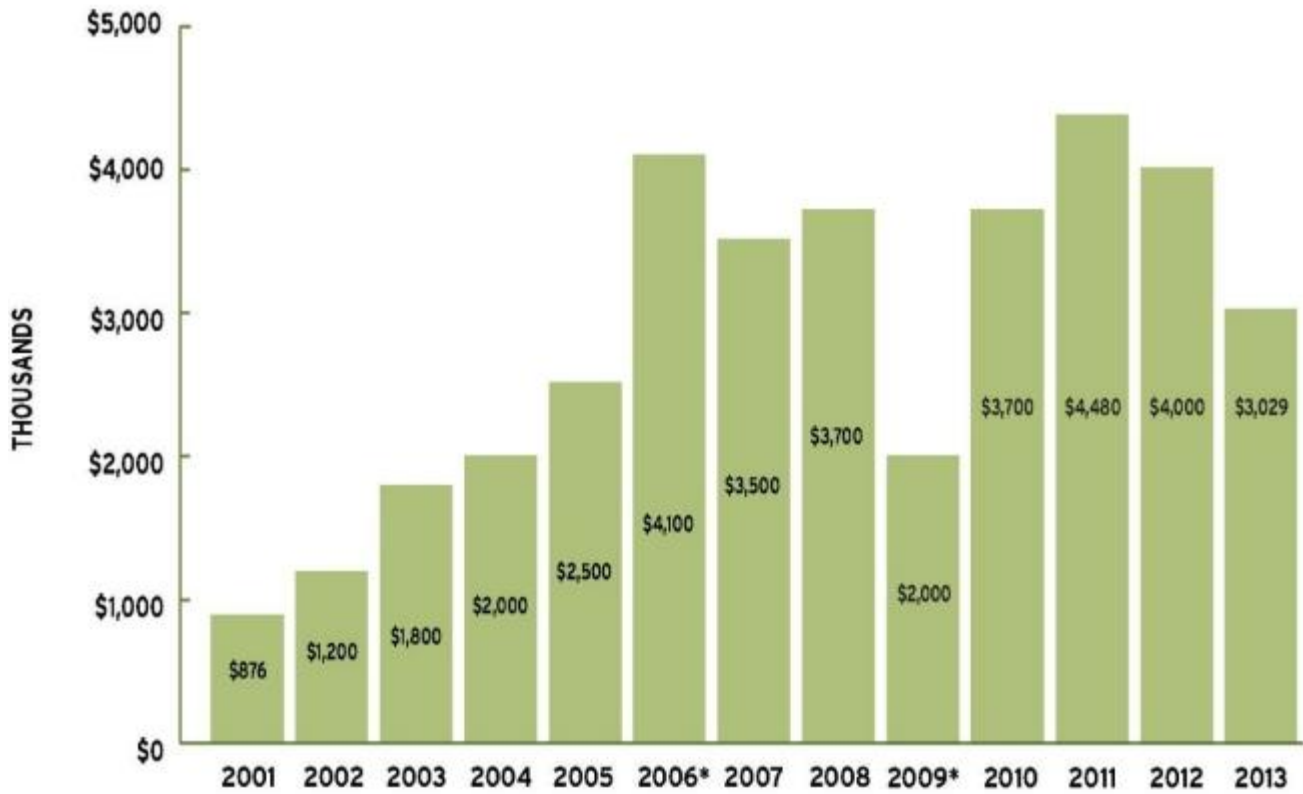
REI regional and national grants are also given by invitation only. We tend to support stewardship and outdoor programs that align with our specialty shop activities, such as urban cycling, mountain biking, climbing, paddling and hiking.

REI's support of nonprofit partners extends beyond grants. Many of the places where people love to recreate across the U.S. can remain open and accessible only with the contribution of volunteer hours and hands-on stewardship. At REI stores across the country, we actively support and promote our grant partners' efforts to engage volunteers in caring for the outdoor places where our customers play.

We also recognize that we are part of a broader, socially responsible business community and are committed to responding to natural disasters that impact our customers, employees and suppliers. For instance, in 2013 we donated \$95,000 to the American Red Cross to support relief efforts for victims of the Colorado flooding and wildfires, and those impacted by Typhoon Haiyan in the Philippines. In addition, we invited our Colorado customers to make donations at several of our Denver-area stores to help restore outdoor recreation places that were damaged during the flooding.



Annual Giving Budget



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



The REI Foundation

The REI Foundation has a long-term goal of engaging and nurturing the next generation of outdoor enthusiasts and environmental stewards. While continuing to support a variety of efforts, The Foundation's focus has sharpened in recent years to engage members of the millennial generation. The Foundation makes traditional programming grants and also considers more experimental and learning style grants. In all cases, The Foundation seeks to make the most of its community investments in a way that creates the greatest impact and scale.

The REI Foundation is a private corporate foundation funded and operated by REI. As a separate nonprofit entity, The Foundation files a federal Form 990 disclosure each year that details expenses, grant making and other operating details. The 2012 Form 990 disclosure is the most recent and available [here](#). The Foundation's board is composed of company leaders and an independent director appointed by REI's board of directors. The REI Foundation researches and invites grant proposals connected to its mission; it does not accept unsolicited proposals.

In 2013, The REI Foundation gave grants totaling \$462,500 to the following nonprofit organizations:

Outdoor Foundation for Outdoor Nation – \$150,000. The Outdoor Foundation is the nonprofit established by the Outdoor Industry Association to inspire and develop future generations of outdoor enthusiasts. In 2013, The REI Foundation supported Outdoor Nation, the Outdoor Foundation's main program, which hosted 20 Leadership Summits across the country – drawing more than a thousand young people to champion the outdoors. Additionally, Outdoor Nation piloted a new Summit strategy where young leaders plan, coordinate and host their "own" Summit. A small grant program underwritten by Outdoor Nation supporters also provides seed funding for youth working on community-based projects. The program continues to grow and expects to conduct Summits in all 50 states in 2014.

Children & Nature Network - \$167,500. The REI Foundation made a grant to support the Children & Nature Network's Natural Leaders Network Legacy Initiative. The initiative equips young diverse, community leaders with outdoor skills and community leadership training to effectively move their communities outside and into nature, for the health and well-being of children, their families, their communities and nature itself. The REI Foundation grant also helped support an expanded Natural Leaders Legacy Camp, which brought youth leaders together to learn how to lead their communities in connecting young people to nature. In addition to training and mentoring, youth leaders accepted into the camp agreed to conduct a set of activities upon returning to their home communities.

The YMCA of the USA - \$50,000. In support of the YMCA's efforts to grow and replicate their Boys/Girls Outdoor Leadership Development (BOLD/GOLD) program, The REI Foundation made a three-year funding commitment of \$50,000 per year. The 2013 grant is the second year of this commitment and the program expanded to several target communities.

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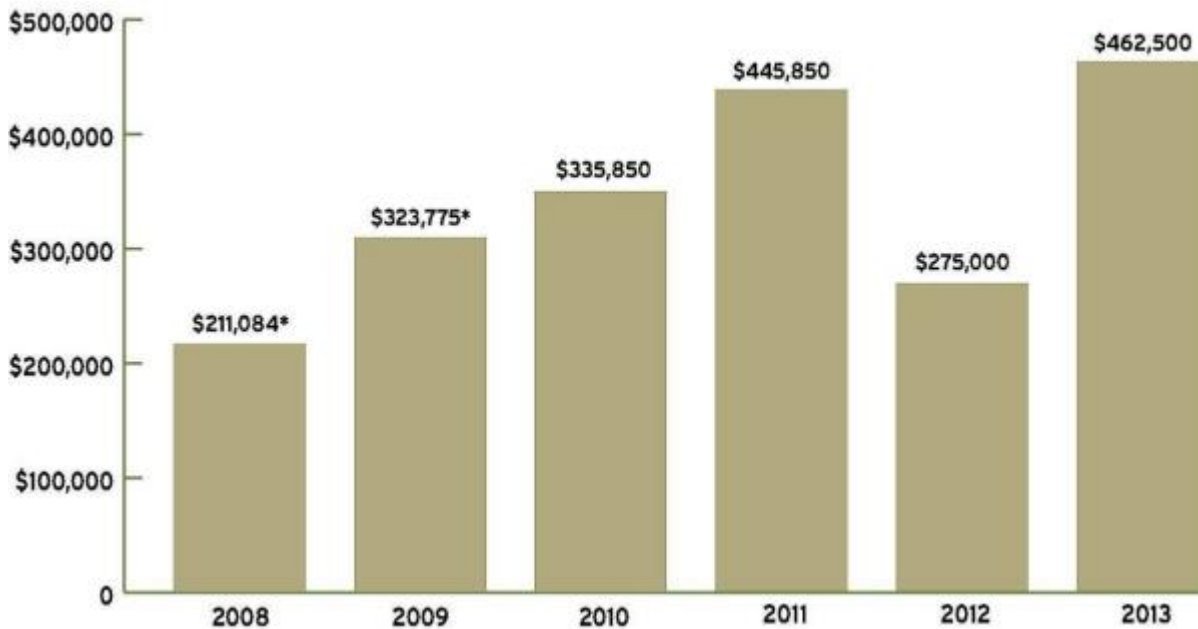
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Futuro Media Group/Latino USA's "RadioNature" - \$95,000. Underwritten by The REI Foundation and produced by the nonprofit Futuro Media Group, RadioNature entered a third year of programming, which involves reporting on the relationship that the Latino community and individuals enjoy with nature, outdoor activities and stewardship. Latino USA is heard across the country on a large number of NPR stations. In 2013 the program expanded to a full hour, added stations, and became available on the Internet through new digital channels.

Learn more about The REI Foundation at the [REI in the Community](#) page of our website.

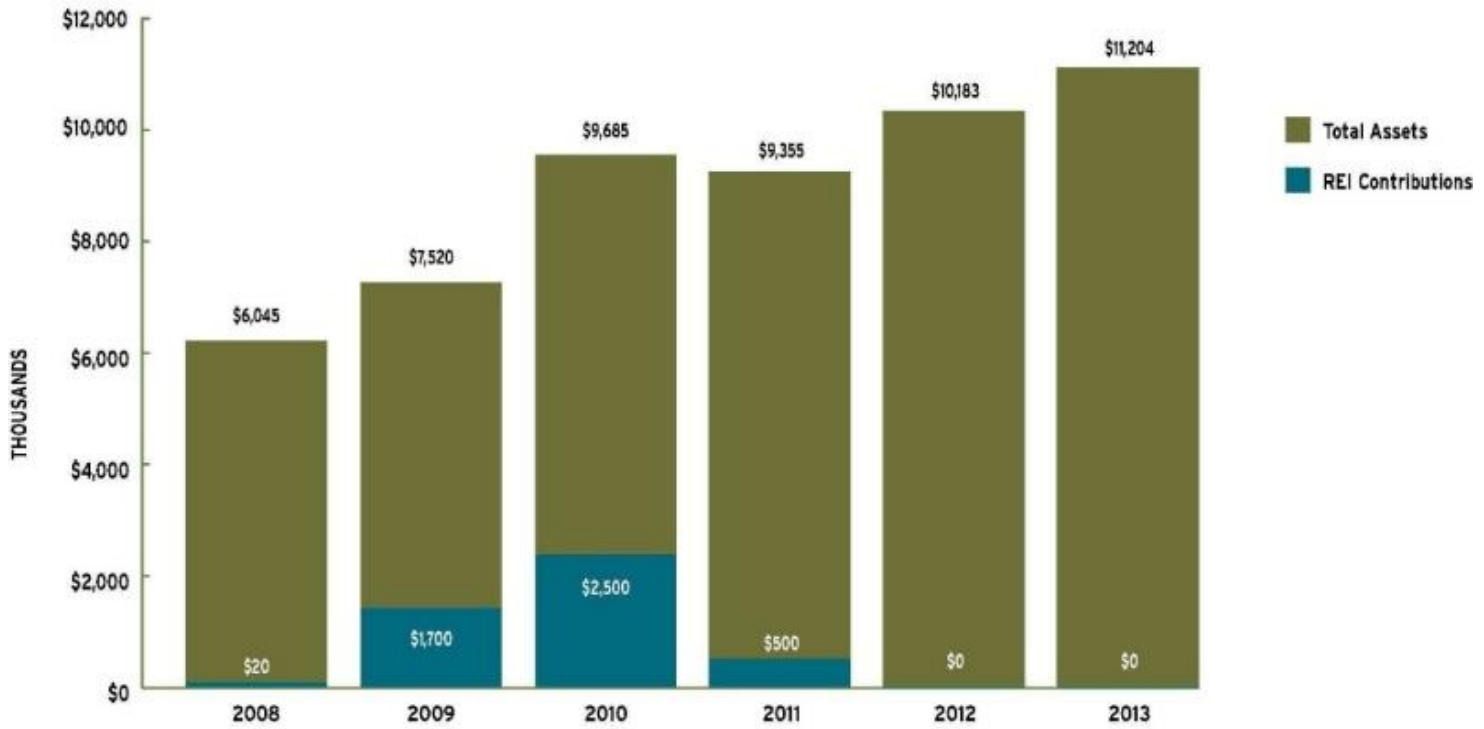
The REI Foundation Grants



*Funding includes financial support of relief work efforts and grants made in in memory of deceased REI employees



The REI Foundation Total Assets & REI Contributions



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



Advocacy for the Outdoors

REI engages in a select number of public policy dialogues to support the co-op's core purpose and help us to stay competitive in a rapidly changing marketplace.

Our advocacy generally falls into two categories. First, we advocate on issues that affect public access to and the enjoyment of parks, trails, waterways and other recreational areas. The goal is to assure that, as the public policy landscape evolves, our members, customers and employees are able to pursue the outdoor activities they enjoy. Second, we work on public policy matters that impact our daily business operations directly and through the broader outdoor industry indirectly. To accomplish this work, we operate a small government affairs program. The team relies on a full-time government affairs director, periodic engagement by senior REI staff and leaders, and a political and policy consultancy in Washington, D.C.

REI also belongs to trade associations that run their own government affairs programs. We work actively with the Outdoor Industry Association (OIA) to advance the policy agenda on public lands and business issues. For those that specifically affect retailers, we participate in some of the policy initiatives driven by the Retail Industry Leaders Association. And in Washington state, where we are headquartered, we are members of the Washington Retail Association.

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

Primary Initiatives

The bulk of REI's advocacy efforts in 2013 were focused on a handful of initiatives. While we continue to make headway, each remains a work in progress.

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

- *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.* These federal programs include the [Land & Water Conservation Fund](#), [Recreational Trails Program](#) and 2016 centennial of the National Parks System.
- *Partnered with government officials and industry colleagues to raise awareness of outdoor recreation's substantial economic benefits.* In 2012, the OIA released new data, demonstrating how our sector contributes \$645 billion to national gross domestic product and supports more than six million jobs nationwide. In 2013, the [OIA released](#)



[companion reports](#) on the size of the recreation economy in each of the 50 states. Along with our industry peers, we use these reports to make the case for policies that support recreation's continued growth.

To assure REI's product development and retail operations remain competitive in a challenging marketplace, in 2013 we:

- *Worked with a broad coalition of retailers, shopping mall owners and other businesses seeking congressional action to close the so-called Internet sales tax loophole through the [Alliance for Main Street Fairness](#). A bipartisan collection of senators and representatives recognize that it is time to undo a decades old Supreme Court decision that exempts many online-only retailers from having to collect sales taxes. This gives online-only merchants an unfair pricing advantage if they are not required to collect sales tax that is owed by shoppers. Bills before Congress would level the playing field and at the same time help repair strained state budgets by allowing states to require online-only retailers to collect and turn over sales taxes.*
- *Supported efforts by outdoor industry companies to reduce import tariffs on high-performance outerwear, where those tariffs raise costs on consumers and do not protect a domestic industry. Many highly technical, modern-day articles of clothing, including those that breathe and repel water, are not manufactured in the U.S., and yet these goods face extraordinarily high tariffs. This creates high product costs without benefit to U.S. consumers or industry. With the OIA, we have advocated for policy changes, such as via the U.S. OUTDOOR Act, which would eliminate or substantially reduce those tariffs. With tariffs reduced, companies like REI would be able to deliver higher performing outerwear at even better prices.*

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?q13> (federal campaign contributions by individuals and PACs)
- <http://www.pdc.wa.gov/MvcQuerySystem/AdvancedSearch/Contributions> (contributions to Washington state campaigns by individuals and organizations)



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. We use a framework that reflects the work of the [Outdoor Industry Association's Sustainability Working Group](#) (SWG) and apply it to our operational footprint. The SWG focuses on four key work areas: index development, responsible chemicals management, materials traceability in the supply chain, and social responsibility and fair labor. Index development includes the topics of environmental management systems, energy, greenhouse gas emissions, water use, emissions to air, waste management and chemicals. From this comprehensive view, REI has chosen to establish key performance metrics for [greenhouse gas emissions](#) (GHG), [energy use](#), [waste](#) and [paper use](#).

Comments

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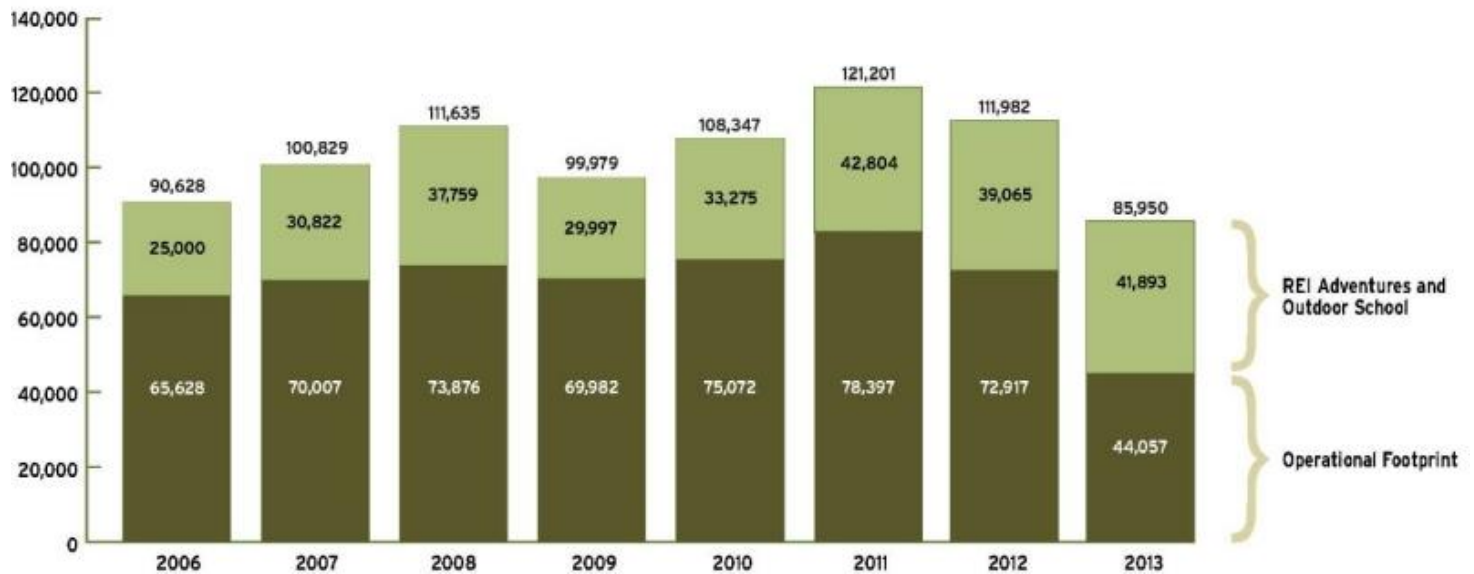


Greenhouse Gas Emissions

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

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

Carbon Footprint (Tons CO₂)



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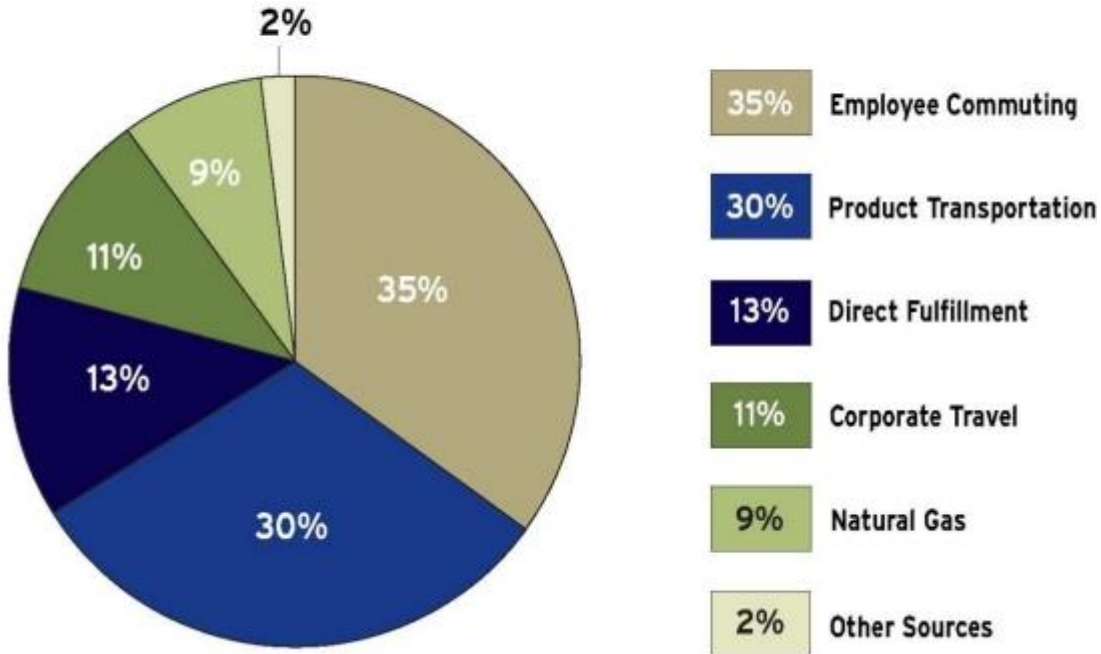


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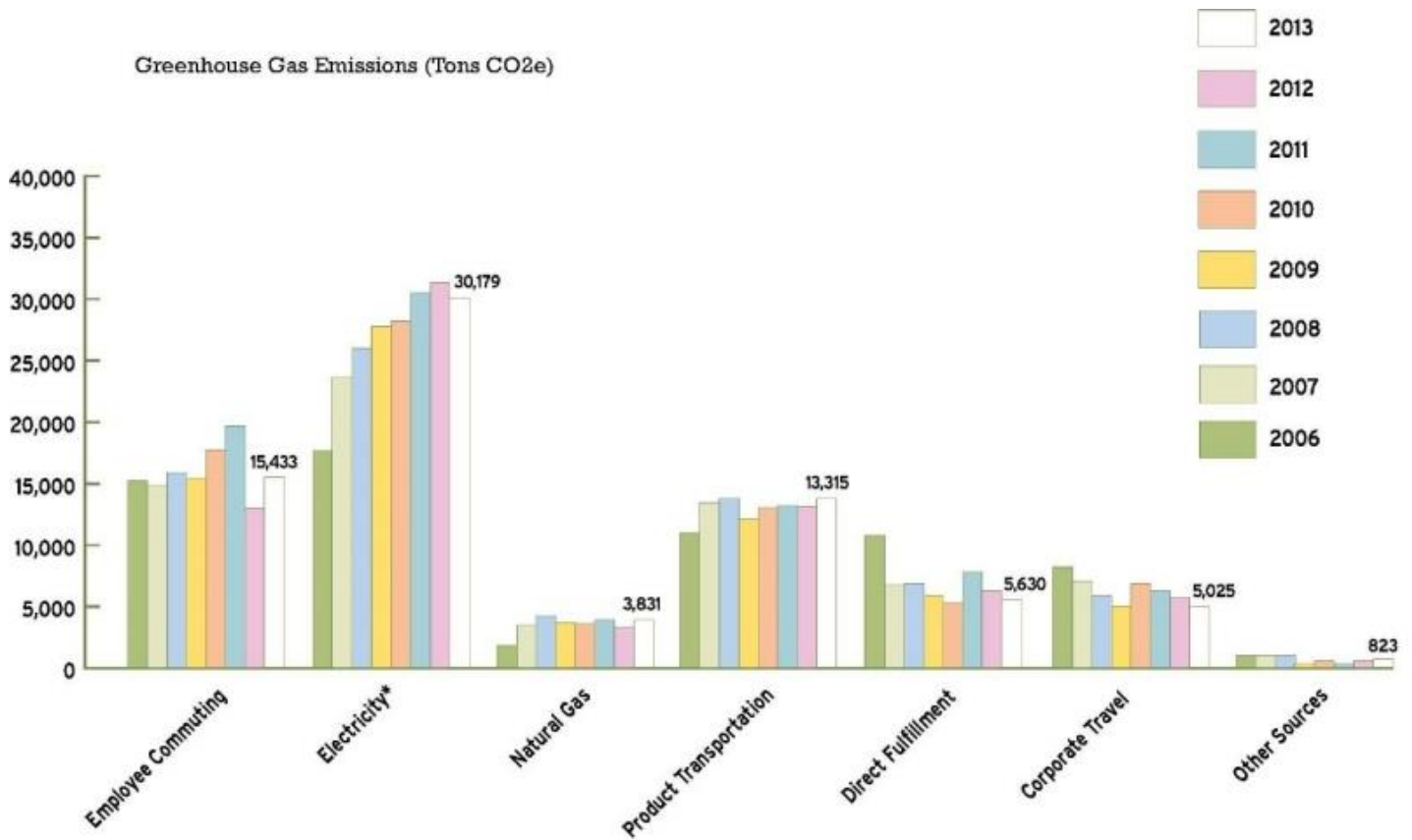
REI's 2013 Operational Greenhouse Gas Emissions
(44,057 tons CO₂e)



* Please refer to Electricity Impacts (Tons CO₂) chart for detail on REI's electricity consumption.

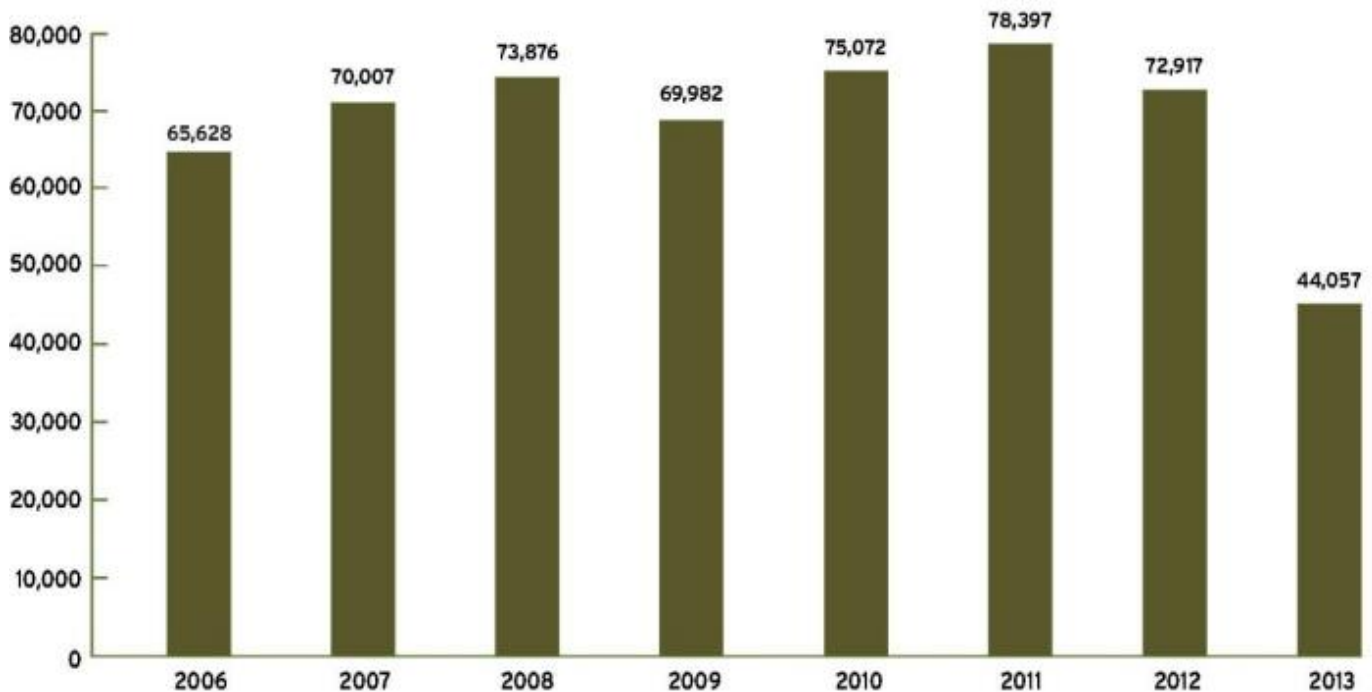
2013 STEWARDSHIP REPORT

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*Please refer to Electricity Impacts (Tons CO₂) chart for details on REI's electricity consumption

Operational Footprint (tons CO₂e)



The substantial drop in our operational footprint from 2012 to 2013 is due to our renewable energy sourcing.

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Energy Use – Electricity: 0 percent of total operational GHG footprint; Natural Gas: 8 percent of total GHG footprint

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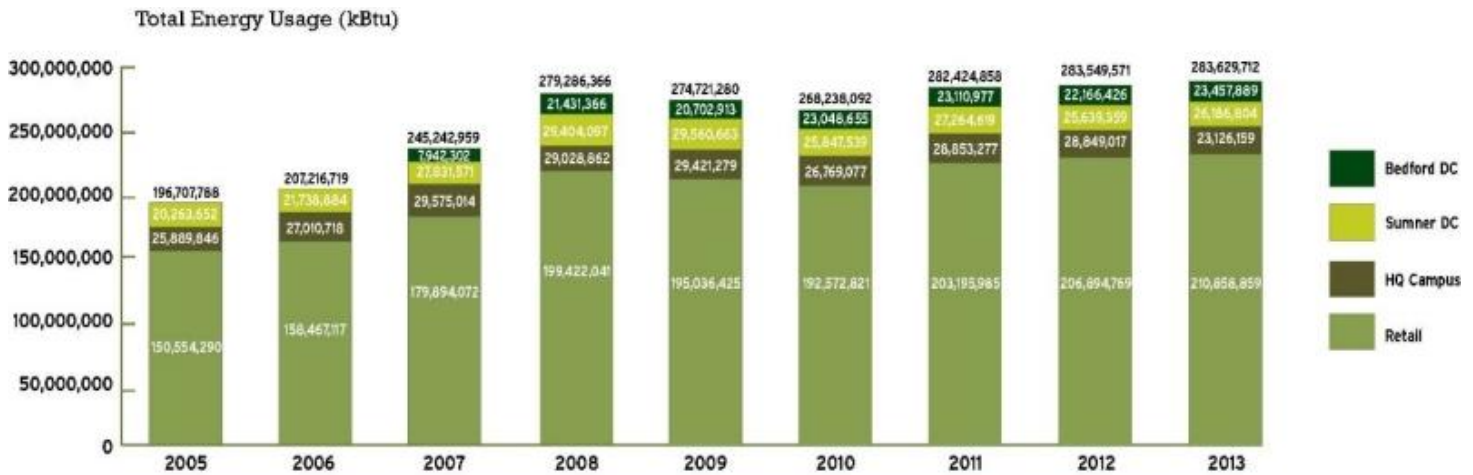
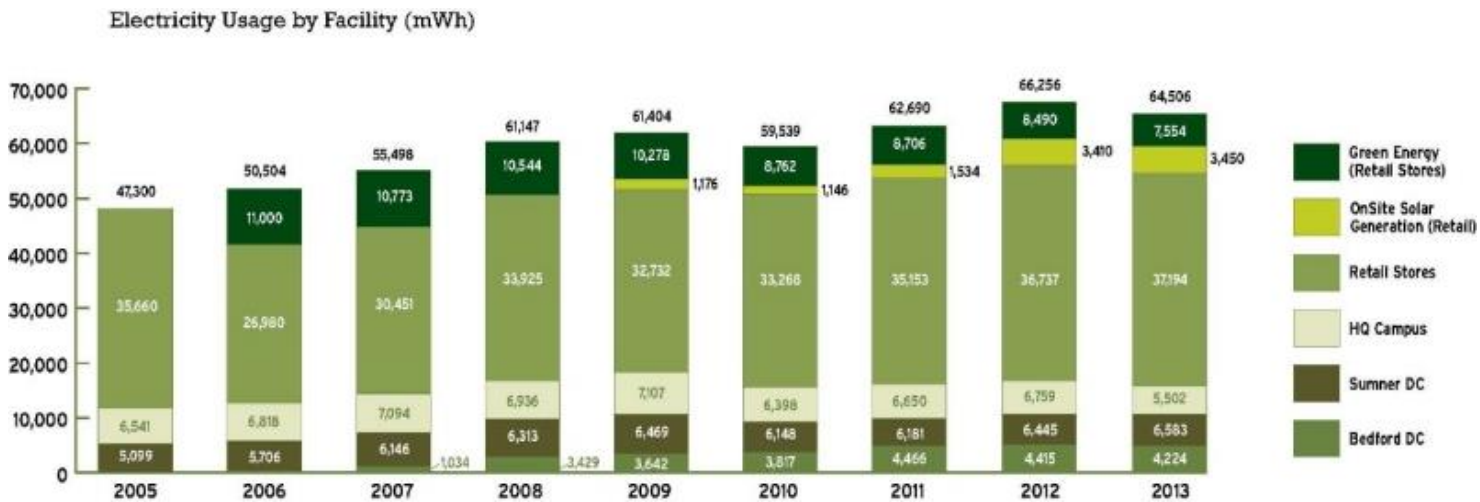


Chart combines natural gas and electricity into a common unit to illustrate total energy usage.

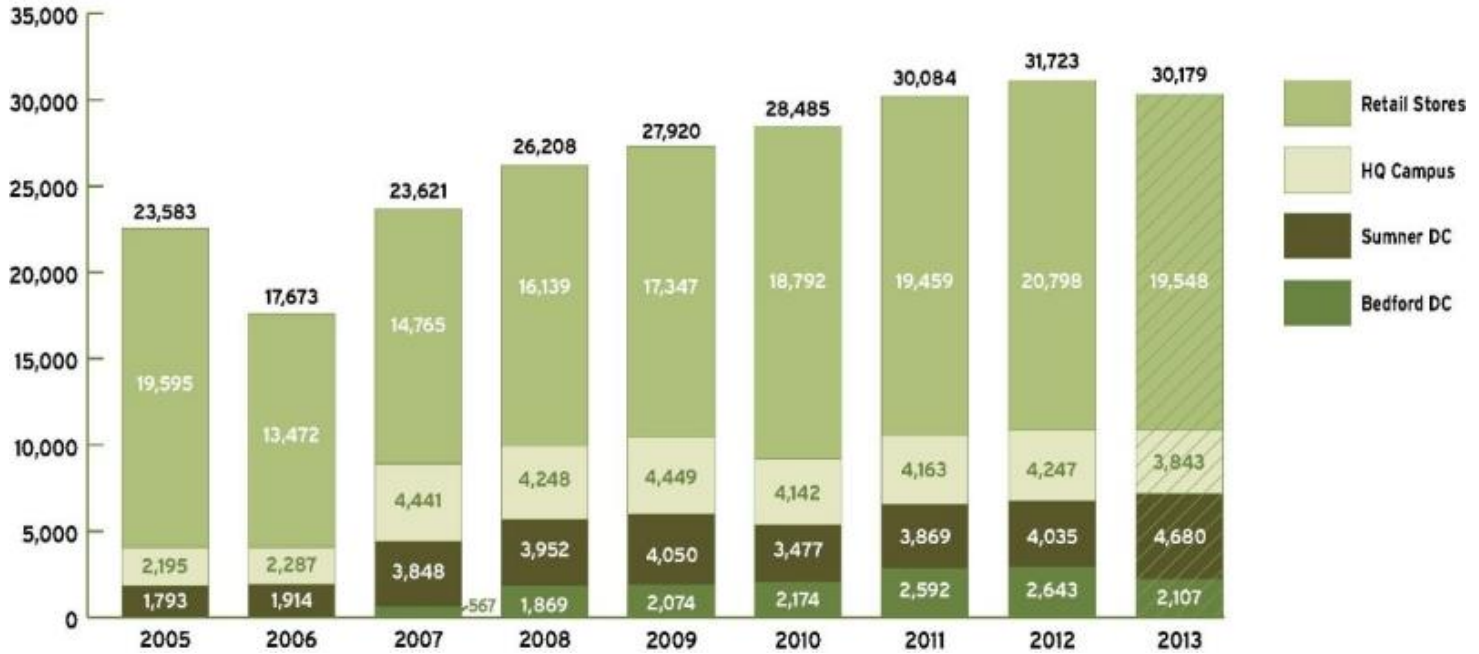


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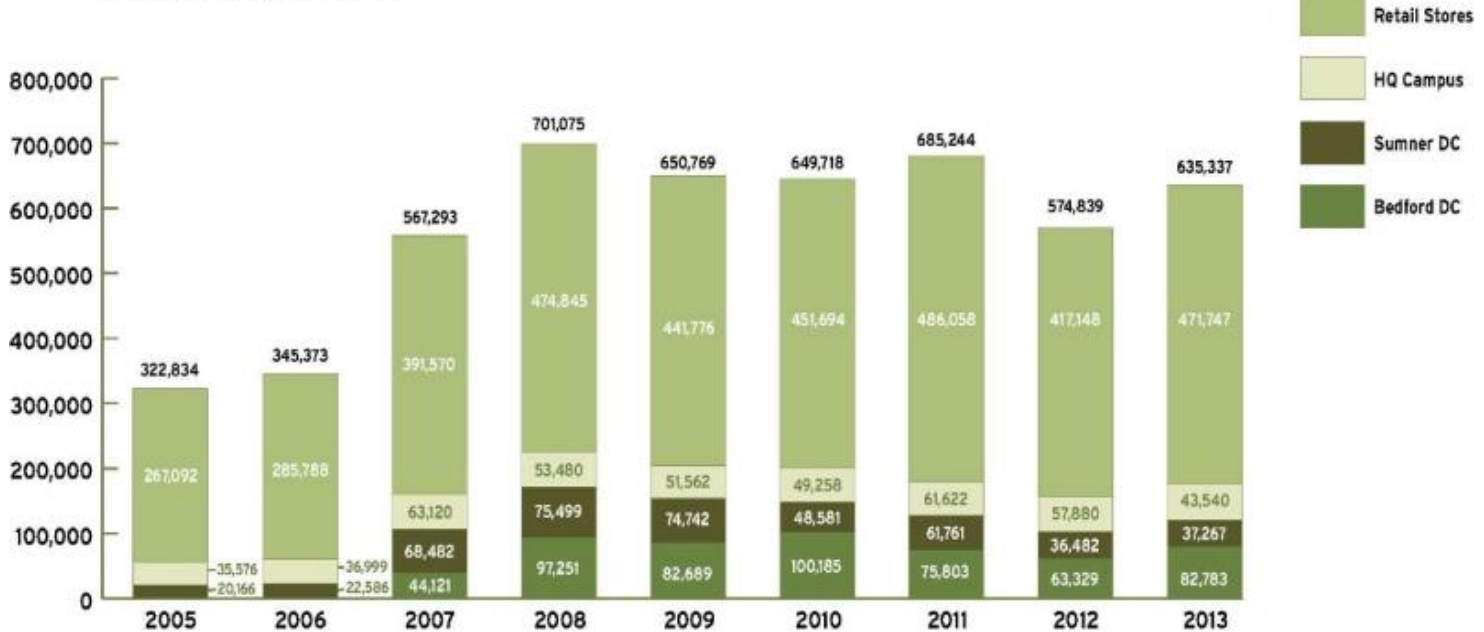
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Electricity Impacts (Tons CO2)

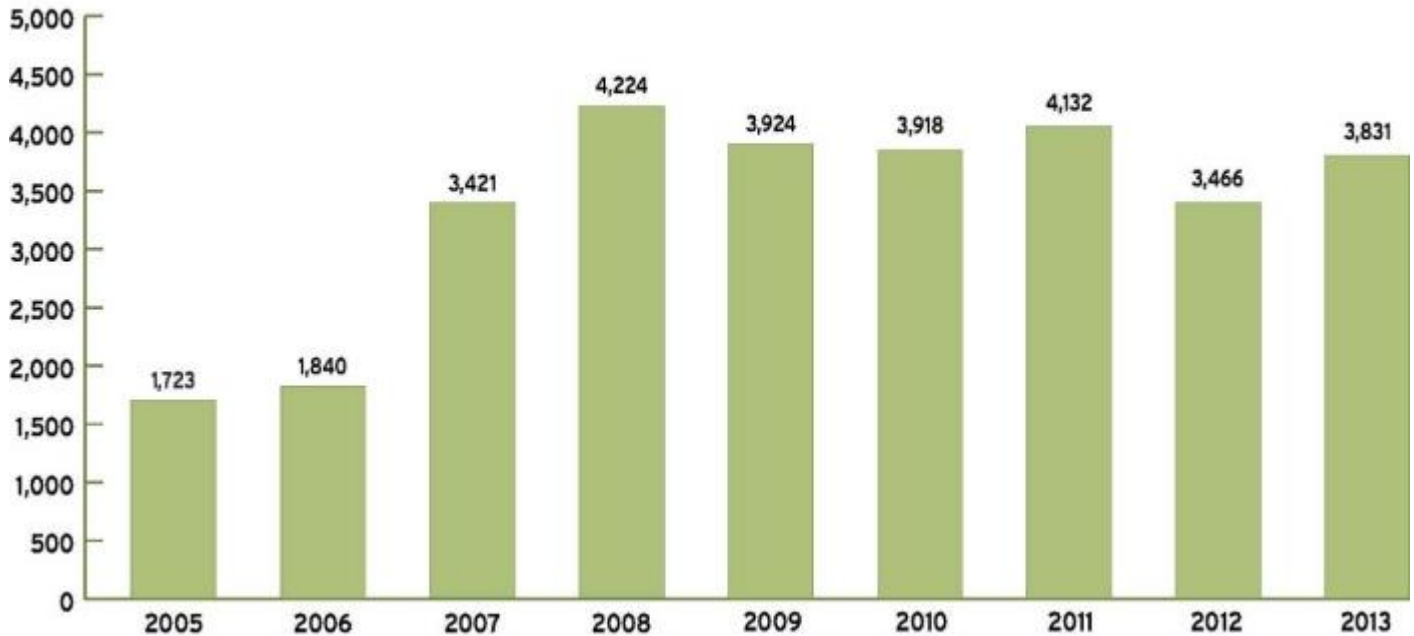


Natural Gas Usage (Therms)





Natural Gas (Tons CO₂)



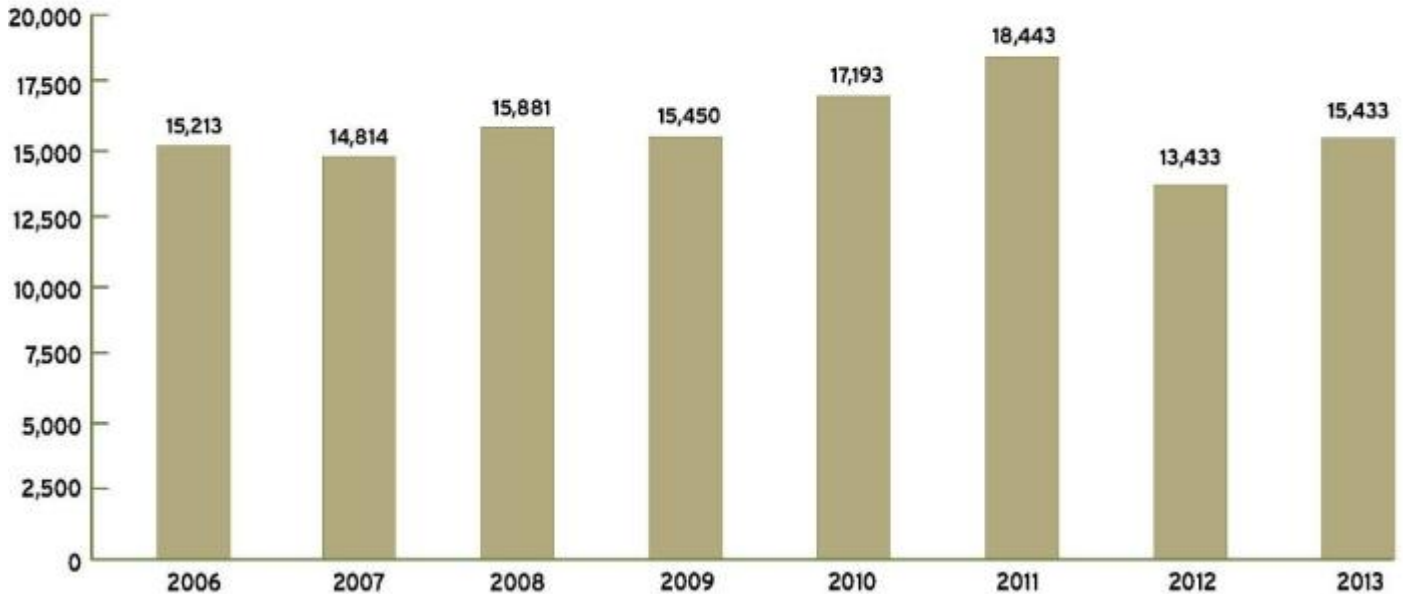
Our absolute energy increased by 0.1 percent from 2012 to 2013, driven by a 10.9 percent increase in natural gas consumption year-over-year. Our electricity consumption decreased 2.6 percent from 2012 levels because of the implementation of energy efficiency investments. Starting in 2013, we committed to buying renewable energy certificates to match our energy use. In addition to the green energy generated by our solar photovoltaic systems on 26 locations, we purchased 54,959 mWh of environmental benefits of wind power from a Texas project by buying Green-e certified Renewable Energy Certificates. Because of our renewable energy sourcing in 2013, the CO₂ impact of our electricity consumption was zero. For more information about our energy strategy, [click here](#).



Employee Commuting – 35 percent of total operational GHG footprint

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Employee Commuting (Tons CO₂)



REI’s employee commuting emissions increased by 15 percent from 2012. The shift occurred largely from slight decreases in alternative commuting behavior and a relative increase in single occupancy vehicle commuting. As the co-op continues to grow, we are working to create changes in commuting behavior through the promotion of ride-sharing and alternative commuting options, and by understanding the barriers to alternative commuting. Some of the greatest barriers to alternative commuting identified from our employee commuting survey include the mismatch between transit schedules and work schedules, longer commute time, lack of flexibility, and personal need for a vehicle. The largest incentives for alternative commuting include reduced cost of commuting, decreased commute time, reduced environmental impact, the ability to pay for transit before taxes, and the guaranteed ride home program for alternative commute participants. As the co-op continues to grow, we are working to create changes in commuting behavior through the promotion of ride-sharing and alternative commuting options, and by understanding the barriers to alternative commuting.

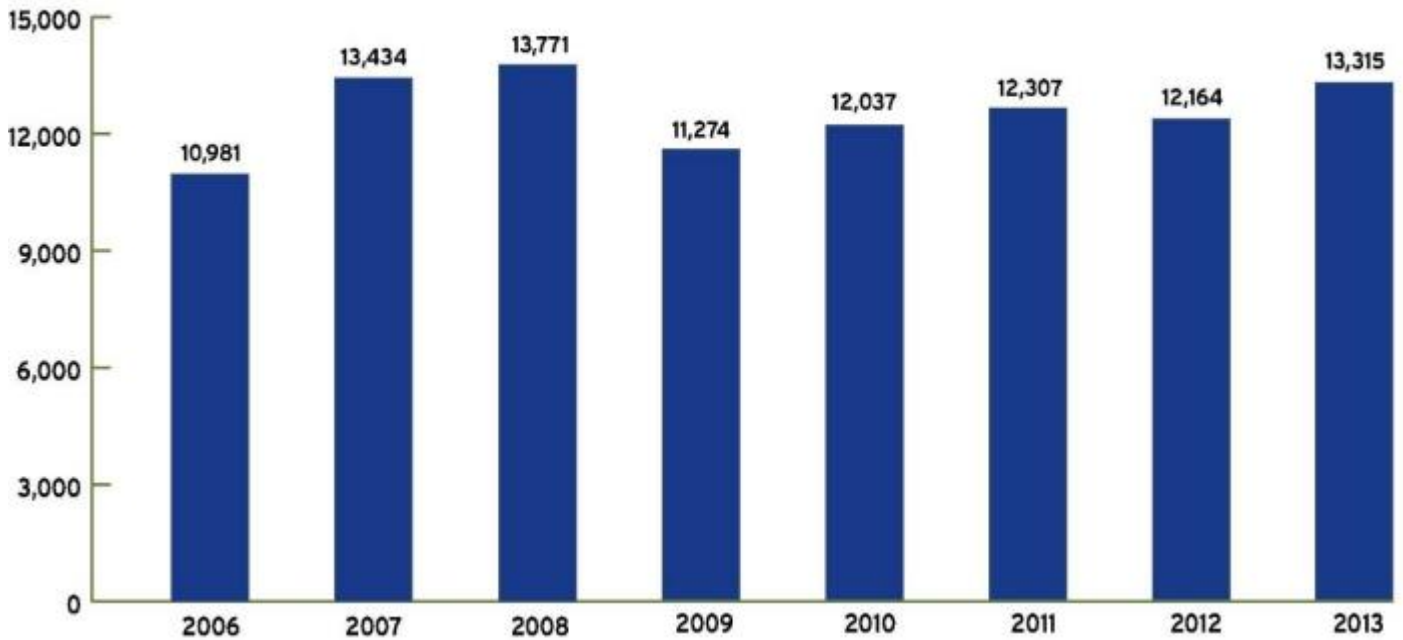
To learn more about our strategy to reduce REI’s employee commuting footprint and incentives offered at REI, [click here](#).



Product Transportation – 31 percent of total operational GHG footprint

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Product Transportation (Tons CO₂)



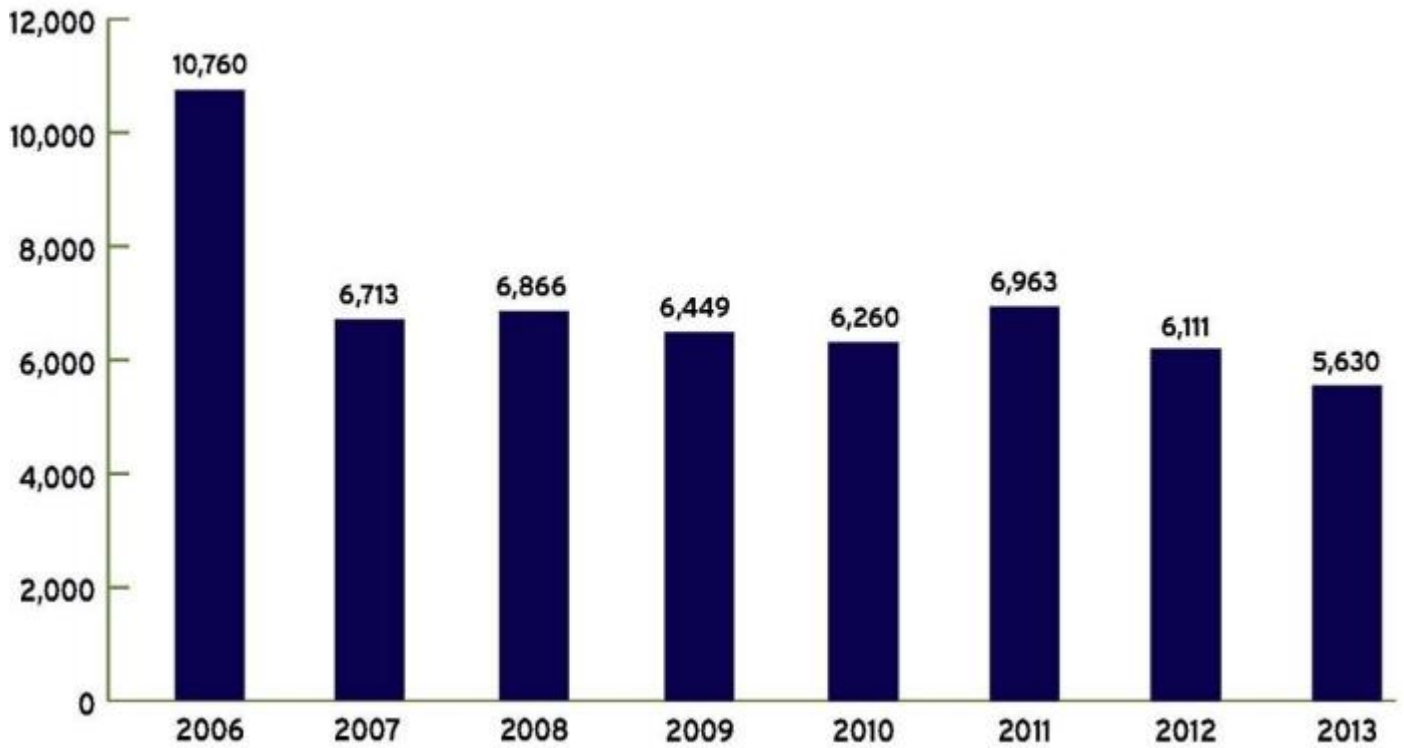
Product transportation accounted for 31 percent of our operational GHG emissions, similar in absolute terms to prior years, but a higher relative contribution to our GHG footprint due to our renewable energy sourcing (which reduced the CO₂ of electricity consumption to 0 in 2013). Emissions increased by 14 percent in a fiscal year where REI's sales grew by 5.9 percent. This is largely due to increased volumes, challenges consolidating freight and a small increase in air freight. Our logistics team continues to minimize air freight and increase opportunities to consolidate freight.



Direct Fulfillment – 13 percent of total operational GHG footprint

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Direct Fulfillment (Tons CO₂)

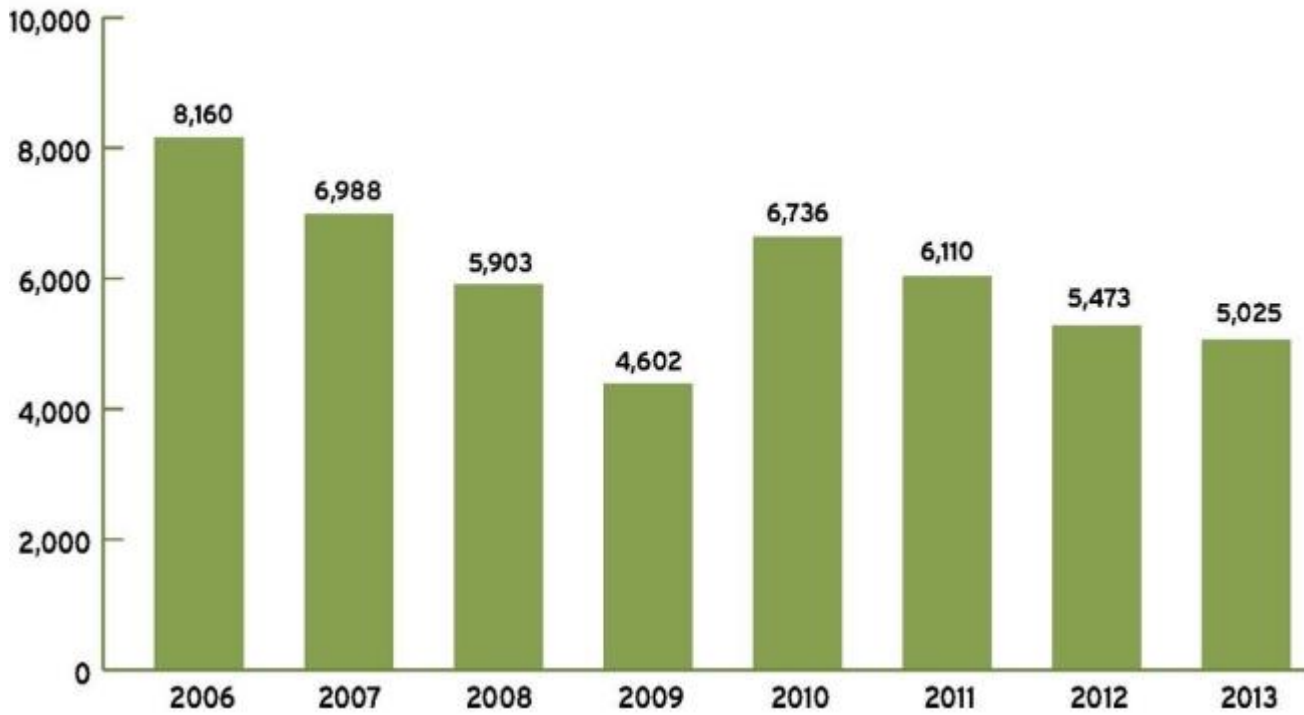




Corporate Travel – 11 percent of total operational GHG footprint

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Corporate Travel (Tons CO₂)

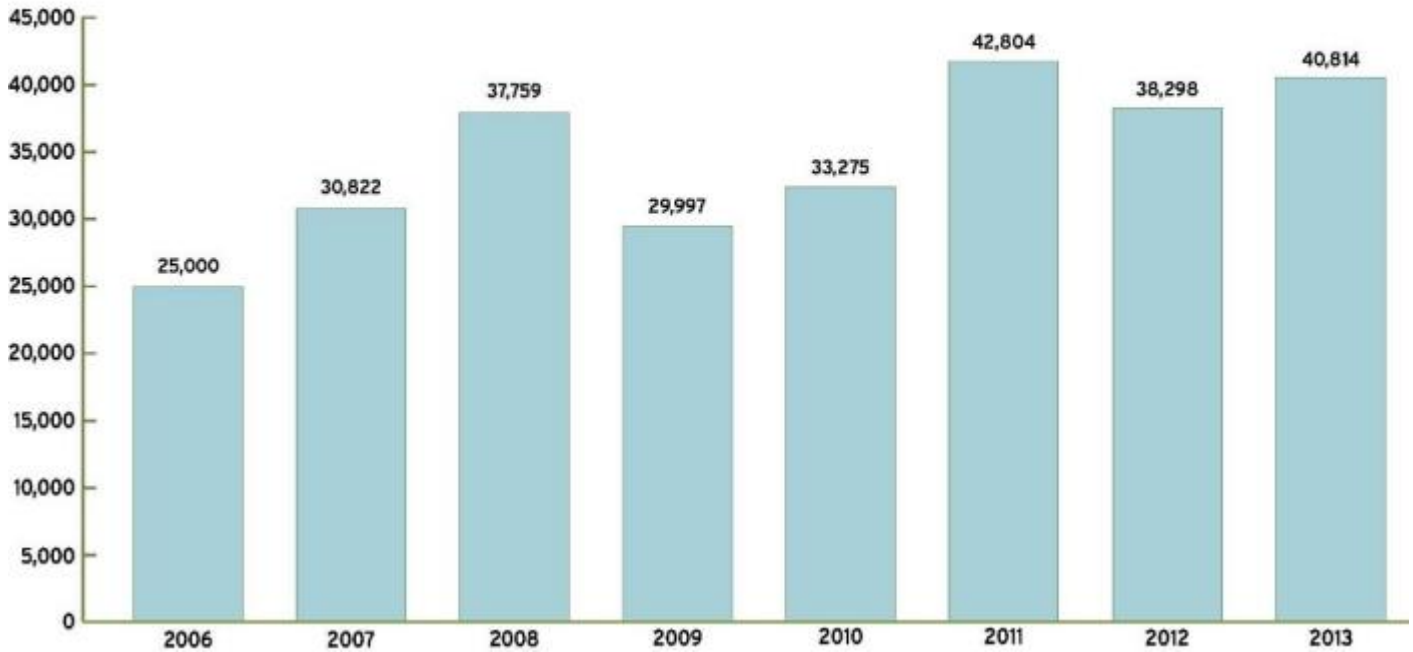




REI Adventures

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REI Adventures (Tons CO₂e)

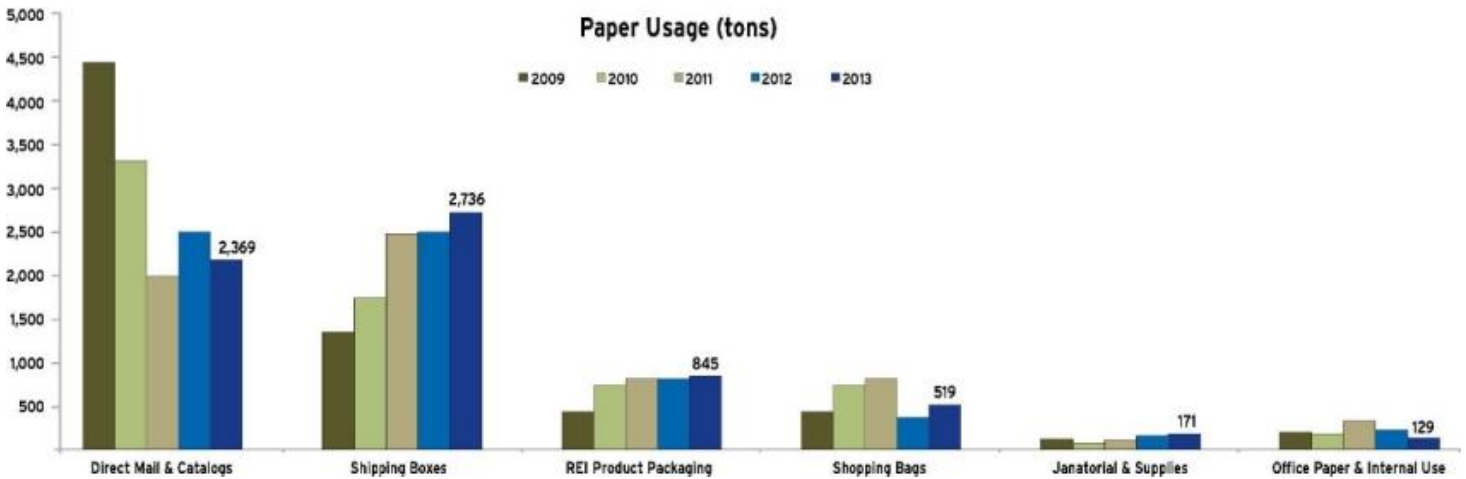


Our REI Adventures climate impact was higher than in 2012, due to an increase in the number of travelers on REI Adventures trips. Additional details about our greenhouse gas accounting are available in our [methodology section](#).

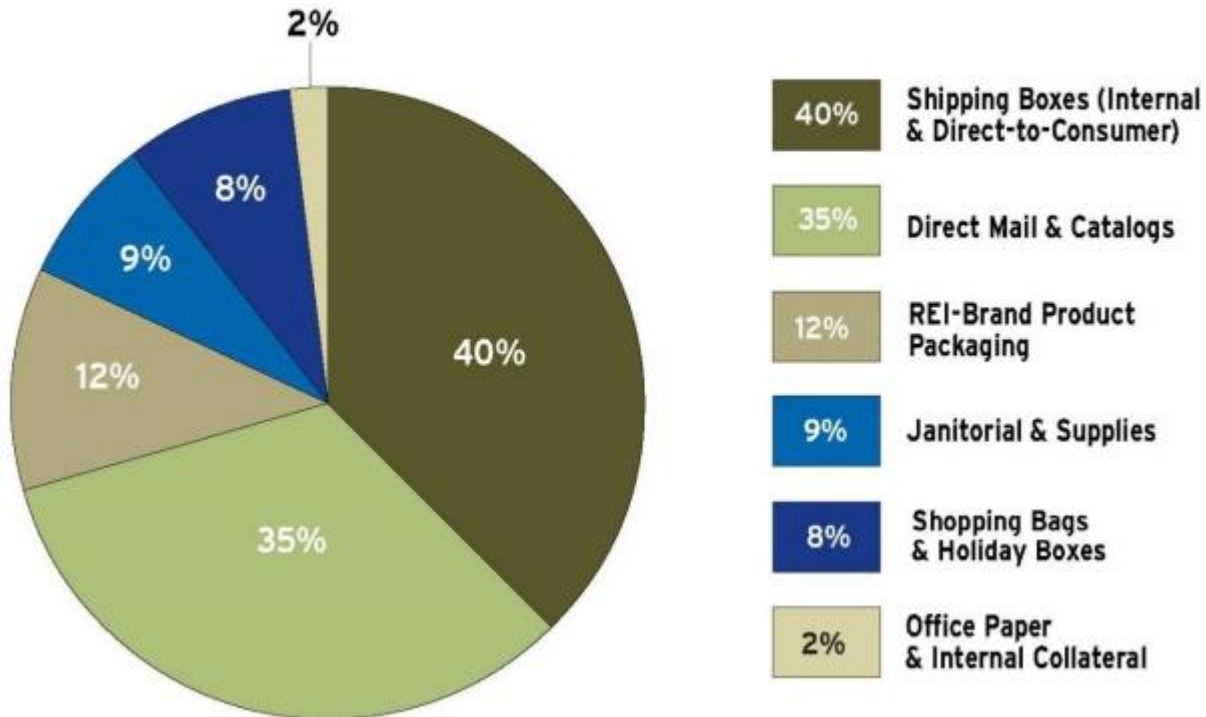


Paper

Access to healthy forests is essential for outdoor enthusiasts and core to REI's business. We use fiber and the resulting paper products throughout our operations—catalogs, cardboard, shopping bags, hangtags and more.



2013 Estimated Paper Usage





Paper Efficiency

	2006	2007	2008	2009	2010	2011	2012	2013
Annual Sales (MM\$)	\$1,182	\$1,342	\$1,440	\$1,455	\$1,659	\$1,792	\$1,931	\$2,017
Total Paper (Tons)	6,491	7,577	7,969	6,940	6,523	6,298	6,549	6,768
Total Paper Efficiency (MM Sales \$ / Tons)	0.182	0.177	0.181	0.210	0.254	0.285	0.295	0.298
Total Virgin Fiber (Tons)	4,828	5,974	5,806	5,314	4,560	3,827	4,091	4,354
Virgin Fiber Efficiency (MM Sales \$ / Tons)	0.245	0.225	0.248	0.274	0.364	0.468	0.472	0.463
Direct Mail (Tons)	3,785	4,744	4,771	3,626	3,254	1,957	2,450	2,369
Direct Mail Efficiency (MM Sales \$ / Tons)	0.310	0.283	0.302	0.401	0.510	0.916	0.788	0.851

Source of Fiber

	2006	2007	2008	2009	2010	2011	2012	2013
Unknown & Undesirable	21.6%	17.1%	14.9%	12.7%	19.0%	22.3%	22.1%	22.6%
Recycled	25.6%	21.2%	27.1%	23.4%	30.1%	39.2%	32.1%	35.7%
Acceptable	52.8%	50.0%	39.0%	36.5%	11.0%	12.1%	10.5%	11.2%
Certified	0.0%	11.7%	19.0%	27.3%	39.9%	26.4%	35.3%	30.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

REI's [paper and paper products purchasing policy](#) creates several outcomes. By adhering to the policy we reduce our environmental footprint, make our paper supply chain visible, and align our purchasing decisions with our values and aspirations. Whenever possible we purchase paper products manufactured from post-consumer waste or virgin fiber harvested from third-party certified forests, and avoid buying products where the fiber comes from unknown or unwanted sources.

For several years, REI has successfully sourced almost all of our catalog paper and marketing materials from third-party certified sources. Over time, we reduced our direct mail quantity—the highest category of certified source of fiber. Meanwhile, other categories of REI's paper use, including operational supplies, increased in line with business growth. As the paper and paper products market has evolved over the past few years, we have also found third-party certified options for operational supplies, such as register receipt tape and our 100 percent post-consumer waste shopping bags. We still face challenges in finding certified or recycled options for certain supplies, such as cardboard shipping boxes sourced overseas.

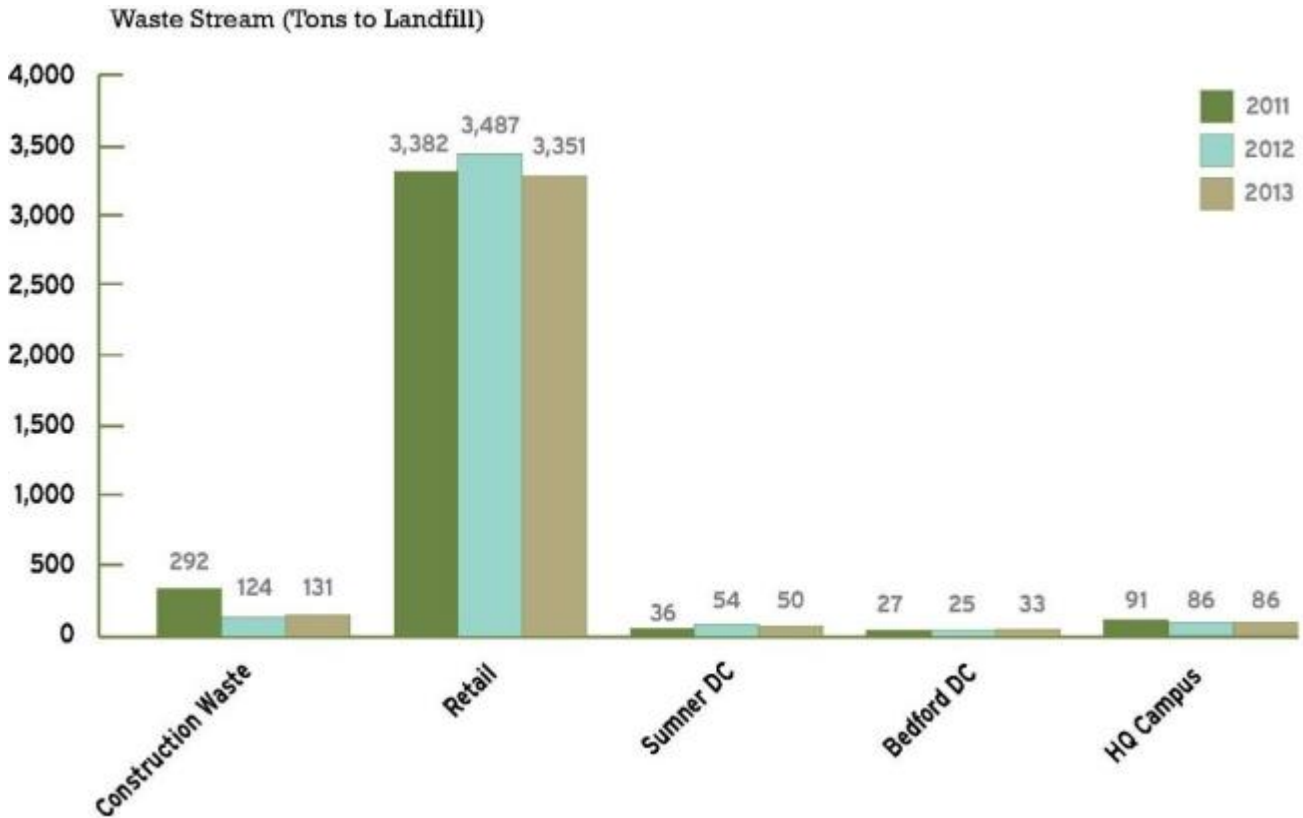
Overall, our paper use increased slightly from 6,549 tons in 2012 to 6,768 tons in 2013. This rise is due to an increase in shipping boxes, which used 2,736 tons of paper in 2013 versus 2,531 tons in 2012, and increases in shopping bags and janitorial supplies. The latter is due to the timing of our reordering rather than from a significant increase in use.

We are encouraged that our total use of certified and post-consumer recycled content percentages remained high. This is due largely to relatively high levels of post-consumer recycled paper used in the cardboard industry and our use of catalog paper that often has a high amount of post-consumer waste content. Combined, our use of post-consumer recycled fiber and third-party certified fiber was 66.2 percent of our total paper footprint. REI still faces challenges in eliminating unknown and undesirable sources of fiber in categories of products that don't have robust chain-of-custody accounting systems.



Waste

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



REI’s total waste across all operations in 2013 was 3,658 tons, 124 fewer tons of waste than in 2012. This 3.3 percent reduction in waste marks a decrease for the second year in a row. Construction waste increased by seven tons in 2013 due to new store openings, remodels and store relocations. Despite opening five new stores in 2013, operational retail store waste declined from 3,487 tons in 2012 to 3,351 tons in 2013.

Our distribution centers continue to divert the majority of their operational waste away from landfills. The Bedford, Pa. facility produced 33 tons of waste in 2013, eight tons higher than 2012. Waste at our Sumner, Wash. distribution center decreased from 54 tons in 2012 to 50 tons in 2013.

For more information on our strategy, visit the [stewardship](#) section of our website. Specific details on how we measure our waste are included in the [methodology appendix](#) of our report.



Methodology

This report covers REI's 2013 fiscal year and is our eighth annual report (following our [2006](#), [2007](#), [2008](#), [2009](#), [2010](#), [2011](#) and [2012](#) reports).

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

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

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

Greenhouse Gas Methodology

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

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

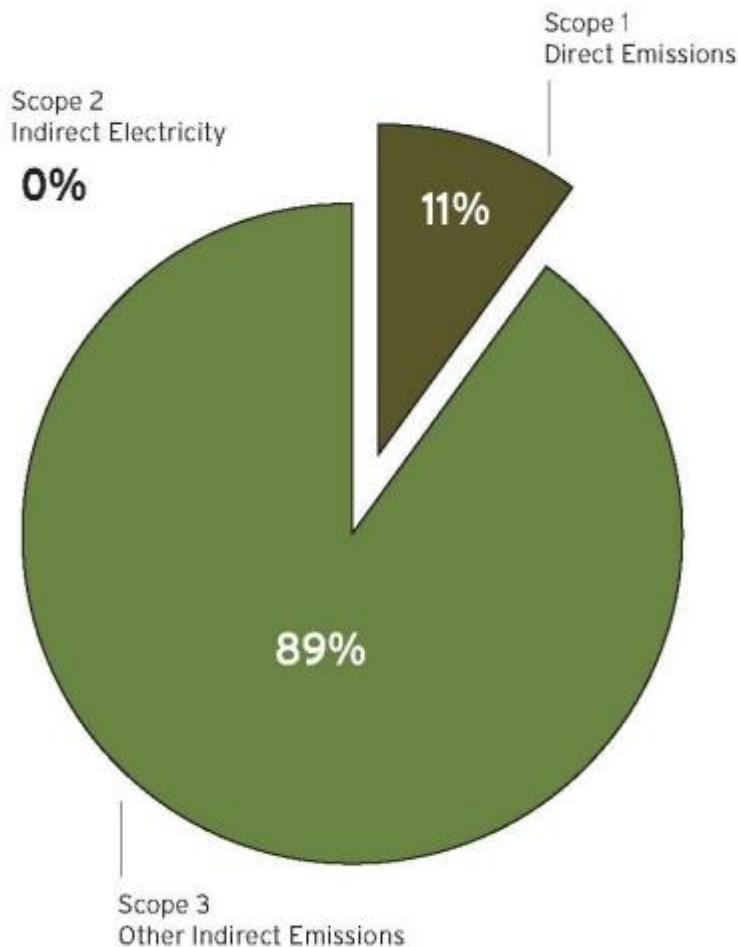
As a retailer that doesn't directly burn fossil fuels or own production facilities, we have very few direct (Scope 1) GHG emissions. Our carbon footprint falls mostly within Scope 3 indirect emissions. We include several significant Scope 3 emissions in the GHG inventory because we decided that they were material and significant to our business operations. We report significant detail (where we can) in our accounting of Scope 3 emissions, where the majority of our impact occurs. We are aware that a material amount of our Scope 3 climate impact is due to the embedded greenhouse gas emissions in the products we sell and that we don't yet have rigorous accounting methods to accurately capture these 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.

2013 Operational Carbon Footprint (WRI Guidelines)



**Scope 2 emissions are 0 due to our renewable energy sourcing*

**Scope 2 emissions are zero due to our renewable energy sourcing*



Scope 1: Direct Emissions

10 percent of REI's 2013 impact (4,654 tons CO₂e):

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

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

*The Kyoto Protocol covers emissions from six main greenhouse gases: Carbon dioxide (CO₂), Methane (CH₄), Nitrous oxide (N₂O), Hydrofluorocarbons (HFCs), Perfluorocarbons (PFCs), and Sulphur hexafluoride (SF₆) (Reference: [United Nations Framework Convention on Climate Change](#)).

Scope 2: Indirect Emissions from Electricity

Because of our renewable energy sourcing in 2013, the CO₂ impact of our electricity consumption was zero.

- Electricity usage

Scope 3: Other Indirect Emissions

90 percent of REI's 2013 impact (39,917 tons CO₂e):

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



Energy Use (Climate Impact):

Electricity & Natural Gas

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

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

Electricity we buy from utilities is converted to CO₂ by using the latest EPA eGrid emissions factors at the sub-region level. The most current data from [eGrid 2012](#) is from calendar year 2009. Because the eGrid sub-region for western Washington significantly underrepresents 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). Without this adjustment we would underrepresent our climate impact and have less accurate data for business analysis.

Our 2013 electricity consumption from non-renewable sources totaled 54,871 MWh. This includes grid power and on-site electricity (where we generated the electricity on-site but sold the environmental benefits). It excludes an additional 9,635 MWh of electricity that we sourced directly through renewable energy contracts with local utilities and self-generated electricity (where we generated the electricity on-site and kept the environmental benefits). We sourced 54,959 MWh of 2013 vintage Green-e certified renewable energy certificates (RECs). We used the [EPA Climate Leaders](#) methodology to account for the CO₂ impact of our RECs purchase, which makes the CO₂ impact of our grid electricity consumption zero.

Moving Product:

Product Transportation

To create our GHG inventory, we claim the carbon impacts for the shipment of goods that we own and in cases where we schedule and control the transportation. Thus, we take responsibility when a vendor ships products from its 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-to-consumer 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 (sales shipped directly to customers).



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

Goods Inbound & Outbound

Truck transportation: Truck transportation from vendors to our distribution centers is computed by a ton-mile calculation using the vendor location, the distance of the shipment and the freight weight to arrive at 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.

Intra-Company Transfers

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

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

Direct Fulfillment

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

For ground shipments, we assume a delivery directly from our fulfillment centers to the customer. While this eliminates the possible shipment routes to and from the carrier's logistical system, we think it is a fair representation of the distance traveled. To simplify calculations, we have assumed the average shipping distance is 1,342 miles



(delivery to Denver from our Sumner, Wash. distribution center), as this is representative of the average distance. We computed the total CO₂ impact based on our average package weight shipped for the average distance and we used the same CO₂ factor computed for truck delivery.

For shipments by air, we omitted any ground component because the air impacts are so large that it makes the ground portion negligible. To account for the CO₂ per air mile, we used the passenger air travel factor used for measuring corporate air travel, but 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.

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 an emissions factor per passenger mile that includes a multiplier to account for the increased climate-change impacts of radiative forcing. We do not calculate CO₂ based on flight segment length, carrier, or class of air travel (economy vs. business or first class). We continue to seek rigorous flight and carrier level CO₂ factors so that we can more accurately measure our impact and also as shift our business to the most efficient carriers.

For rental cars, to calculate CO₂ 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.

Employee Commuting

To measure the climate impact of our employees commuting to work in 2013, we combined our employee headcount data with our seventh annual commuting behavior survey. This survey confirms trip distances, work schedules, and commuting behavior. We assume that employees who didn't respond to the survey have the same commuting habits as those who did respond. This can introduce some error into our calculations. To calculate total miles and emissions, the measurements are projected to reflect the entire population at each location, with the exception of our headquarters, where we projected emission factors within each individual department (rather than the campus as a whole).

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 2013, these estimates were calculated using these guidelines:



1. Our largest facilities (our headquarters, Sumner, Wash. distribution center, Bedford, Pa. distribution center and several stores in major urban areas) were measured directly, and their CO2 output was calculated from employee responses.
2. Stores with significant public transportation options were assumed to have the same carbon output per employee. These include: Seattle, 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. Second, part-time store employees, on average, work 3.5 days per week compared to 4.1 days per week for part-timers at the distribution center. Again, carbon emissions were adjusted downward to reflect this difference.

Miscellaneous Greenhouse Gas Emissions:

A 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 heating, ventilation & cooling (HVAC) systems at our facilities where we control maintenance. These are tracked through invoices, vehicle logs and bills.

REI Adventures:

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



Waste Methodology

REI counts waste-to-landfill from all of our owned and leased facilities, including waste generated in regular operations and 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. For the majority of our facilities (retail stores), however, our waste is not measured by weight, and our dumpsters are picked up whether they are full or empty.

In previous years, we used a detailed survey to estimate how full these dumpsters were across our many locations. Although this method was relatively accurate, it had a number of drawbacks – it relied on estimates, was resource-intensive to administer, and failed to align the financial cost of our waste with the environmental cost. We see the simplest way of measuring our progress towards our aspiration as measuring the number of dumpsters we pay to dispose of. Starting in 2010, we updated our metrics to reflect this direction.

We quantify waste in tons, using direct weights (from compactors, etc.) when possible, and industry density estimates when not. For standard “roll-off” dumpsters picked up on a regular schedule at our retail stores, and sometimes at our support facilities, we count the dumpster as full in volume regardless of its actual fill percentage, and then we convert this volume to tons using a standard density conversion. We also count the occasional additional pick-up that our stores call for at times of heavy volume. For stores where 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 approach gives us a clear, simple methodology that aligns our reductions in waste with direct expense savings from reducing landfill service.



Paper Policy

REI is committed to stewardship as a core value of our business. Part of stewardship is the responsible use of resources and the use of 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.

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 oversight of suppliers. The most desirable assurance is a credible, third-party certified chain of custody.

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; or areas that are being actively converted from natural forests to plantations or non-forest uses or that 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.



4. Environmental/Social performance of supply chain partners

REI is committed to sourcing from supply partners, sub-tier suppliers and mills who demonstrate a high level of environmental and social performance. Compliance with applicable regulations is a minimum, but 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.

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 key performance indicators showing our progress and will annually evaluate the policy and acceptable certification/validation systems.

Definitions:

Unknown: Paper and wood fiber that does not have a traceable chain of custody.

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.

Recycled: The amount of post-consumer recycled content in our paper products.

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 a credible certification program.



Product Sustainability

To REI, product sustainability describes the process to understand, consider and manage the long-term social, environmental and economic impacts associated with the products we sell. This ranges across the product lifecycle, from design through end-of-use. We also work to ensure that those who make REI's private label gear and apparel have a safe, fair and non-discriminatory workplace that complies with REI's Factory Code of Conduct.

The majority of products sold at REI are not our own brand. While we don't have control over their supply chains, we seek to influence responsible choices through education, engagement and collaboration. There is considerable work being done by other respected companies across the outdoor industry and we encourage you to learn more about their efforts.

This section of our report highlights various areas of our product sustainability efforts, including our [factory compliance program](#), [product materials](#) and [packaging](#), and [collaboration to enhance the outdoor industry](#).

Comments

We welcome your thoughts on our 2013 stewardship via email at stewardship@rei.com. Your feedback supports our goal of providing information that is relevant and important to our members, customers, partners, employees and others.



Factory Compliance

The proper treatment of workers is a key tenet of REI's business operations. Our goal is to run a program that reflects the values and culture of REI, supports and protects the workers in our supply chains, and encourages our vendors and suppliers to take accountability for their social compliance.

To advance this practice, the Fair Labor Compliance (FLC) team partners with departments across the co-op to implement fair labor strategies for REI Private Brands' products. In particular, the Sourcing and Fair Labor teams collaborate on process alignment, supplier approvals and audit remediation.

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

Audits and Capacity Building

Each year, REI elects to audit a percentage of the "tier one" factories in our supply chain. "Tier one" factories are those locations where final assembly occurs. In 2013, the supply chain for REI brand products consisted of 132 factories. Of those, 48 factories were audited or assessed, totaling 36 percent of our supply chain. This is an increase from 35 factories audited in 2012. To reduce the burden on factories of redundant audits, we obtained six of the 48 audits from other brands that contract with the same factory and maintain high standards for compliance.

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

The following Factory Code of Conduct themes were identified from the 2013 audits:

- Lack of transparency in record keeping
- Lack of operational policies and procedures to protect workers in line with REI's Factory Code of Conduct standards
- Management and workers lack understanding of REI's FLC requirements and what constitutes a safe workplace
- Lack of knowledge about and inadequate staff to handle social compliance work

The following industry trends continued to exist in 2013, as noted by auditors and the FLC team:

- An increase in non-compliance with health and safety standards, in particular fire safety



- Ongoing issues of transparency, predominantly in Chinese factories
- Factory management supporting the sharing of audits among their clients and working from one corrective action plan
- Factories in Asian countries paying higher than minimum wage to reduce worker turnover, yet the same factories frequently not paying overtime rates as required by law
- Factory employees working more than 60 hours per week and not receiving one day off for every seven worked

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

The FLC team adopted a hybrid audit and assessment tool in 2013 that combines a traditional audit approach with open dialogue between assessors and factory management. Using the tool as a guide, assessors openly discuss information with factory management while on site to assess and identify potential non-compliant activities, and then flag such activities in the existing REI FFC audit scope. This procedure allows REI to track the progress and report on the status.

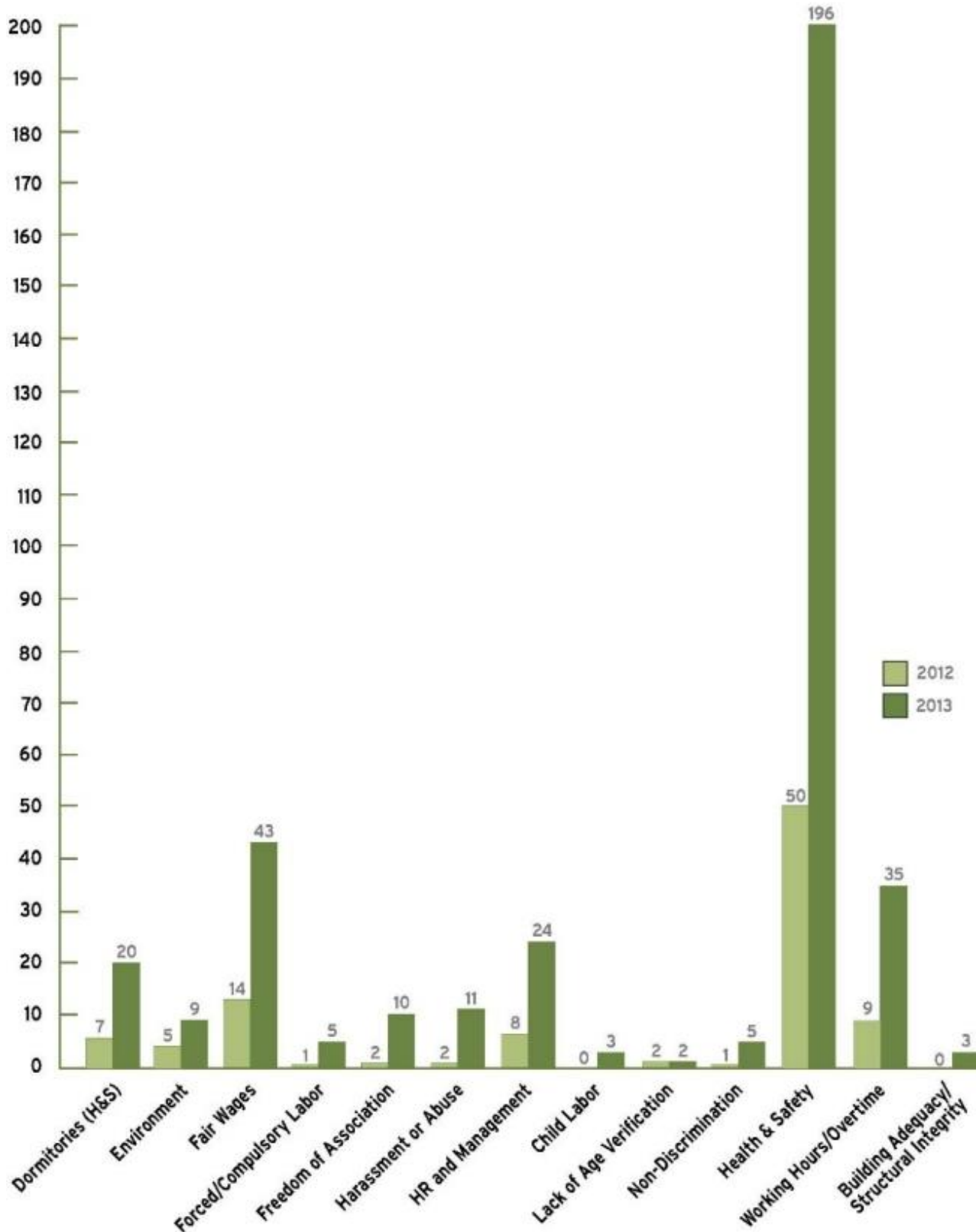
The following chart illustrates the categories of non-compliance with REI's Factory Code of Conduct. This information is derived from standard audits uploaded to the FFC. In 2013, auditors cited a considerable increase in health and safety and other code element non-compliances. These increases result from several reasons. First, we doubled the number of visits to our factories in 2013, contributing to the rise in numbers in several categories. Second, auditors heightened their scrutiny of safety and evacuation procedures because of the Bangladeshi and Pakistani factory disasters in recent years. Third, we added additional code provisions relating to the structural integrity of buildings.

2013 STEWARDSHIP REPORT

OUR COMMITMENT



Comparison of 2012 and 2013 Findings



Note: Refer to the [REI Factory Code of Conduct Elements](#) (PDF) for our standards.



Internal Process Improvements

Partnership with Mountain Equipment Co-op

One of our main goals in 2013 was to educate REI's suppliers in the bike industry on social compliance. This was accomplished through a partnership with Mountain Equipment Co-Op (MEC), an industry peer located in Canada, to share audits and corrective action plans. The two co-ops overlap in 13 facilities and had previously shared audit information on a case-by-case basis. The new process allows REI to share current audits and assessments and follow-up on previous MEC audits to address any past violations.

REI built upon the joint approach in auditing by extending this education to its "tier two" factories that manufacture parts as opposed to "tier one" locations where final assembly occurs. REI's and MEC's social compliance teams conducted training for "tier 2" bike suppliers (focused on those that applied REI's Novara label) in Social Compliance 101, and Health and Safety training in Taichung, Taiwan led by service provider UL Responsible Sourcing.

Transparency and Code Enhancement

Historically, factory audits have documented a lack of transparency in reporting work hours and payroll. In 2013, REI tackled this problem in three ways:

1. We enhanced the pre-audit documents to include REI's position on transparency and outlined the repercussions to a factory that withholds basic information.
2. We made vendors responsible for paying for any follow-up audits if their lack of transparency interferes with the auditor's ability to complete an assessment.
3. We added a transparency element to the REI Factory Code of Conduct: going forward, a Zero Tolerance will be cited when factory management withholds vital payroll information. That factory will not be approved for production until the situation is remediated.

Higg Index and Assessments

In 2012, REI piloted the Sustainable Apparel Coalition's [Higg Index](#)—a collection of sustainability tools that assess environmental and social impacts—to assess a small group of suppliers for REI's Private Brands products. In 2013, we increased our staffing and significantly expanded this effort by hiring an analyst to focus specifically on expanding REI's use of the Higg Index.

One of the Higg Index tools, the Environmental Facility Module, is specifically designed to assess sustainability practices at manufacturing sites and is quickly becoming the industry standard. In our first full year of using the Environmental Facility Module, REI field staff visited a total of 46 factories to provide on-site training. Each factory's participation is factored into our Vendor Scorecard, a relatively new tool used by our Sourcing teams to prioritize



factories for business. The scorecard is also used to facilitate conversations with factories to provide transparency into different aspects of a factory's strengths and weaknesses.

Training and Awareness

REI extended its internal training in 2013. Our FLC team trained the co-op's Sourcing and Brand Management representatives on the use of the vendor/factory onboarding process that was created in 2012. The process introduces new vendors and participating factories to REI's expectations and Code of Conduct standards prior to conducting an initial audit.

The Visible Observation Checklist (VOC) is a simple tool that can be used by any REI employee, whether trained in social compliance or not, to flag potential areas of concern while touring a factory. Previous VOC trainings enabled REI employees to identify high risk areas for the FLC team to follow up on. The checklist includes a description of safety and labor-related issues that REI employees can easily identify while visiting factories.

As an example of how the process works, in one particular instance a potential Zero Tolerance violation was identified at a factory during an environmental training. As a result, an audit was immediately scheduled and the vendor has been very responsive in remediating the issues.

REI also partnered with other brands and multi-stakeholder initiatives to organize factory training sessions. For instance, we collaborated with Columbia Sportswear, Patagonia, Mountain Equipment Co-op and VF Corporation to conduct SAC Higg Index trainings in Ho Chi Minh City (HCMC), Vietnam in March. This model was used for additional collaborative factory trainings in Guangzhou, China and Taipei, Taiwan. Additionally, REI partnered with the HCMC branch of the International Labor Organization Better Work Program to train factories on their services in the region. This was the first training of this type for REI's Vietnam vendors.



Product Materials

REI cares about the health and well-being of those who enjoy our products in nature, but also the impact apparel and gear have on the environment. We are working closely with many companies in the Outdoor Industry Association to research, reduce and eliminate all chemicals of concern used in the manufacture of our products.

Managing Chemicals

REI's Private Brands products—the largest brand of apparel and equipment sold at REI—are subjected to extensive testing. Materials are often lab tested to ensure performance and durability. New product prototypes are field tested to understand how the products function in the outdoors. And numerous components are chemically tested to ensure regulatory compliance.

This last set of tests has long been a challenge for REI. Our design teams have extensive experience testing materials and product prototypes. While product chemistry is an entirely different specialty, we are addressing this in several ways.

In 2013, one of REI's key priorities was to update chemical management practices. Our objective was to ensure that materials used in products for REI Private Brands don't just meet regulatory expectations, but also align with the higher expectations of our employees and customers. While we sell a wide range of products, we have focused on the greatest lever we can pull: the materials used in our private label.

To benchmark our current practices, REI conducted an assessment using the Outdoor Industry Association's Chemicals Management Module. The tool is designed to measure the sophistication of an organization's chemicals management program. The assessment was facilitated by Clean Production Action, a non-profit that works with organizations to advance green chemicals, sustainable materials, and environmentally preferable products.

Based on the findings, REI adopted a number of steps to improve the chemicals management program. One step was a substantial update to the REI Restricted Substances List (RSL). The RSL is a list of chemicals and raw materials that are banned or strictly limited in REI's private label. The list includes regulated substances and additional restrictions voluntarily adopted by REI. The new RSL is aligned with [bluesign technologies ag](#), an independent textile certification system.

bluesign®

To further drive improvements in the supply chain, REI also set an ambitious new target for using fabrics certified to the bluesign standard. The independent, Swiss-based bluesign technologies ag is the world's leading system for managing the environmental impacts of fabric manufacturing. Rather than just focusing on testing finished items, the



bluesign standard is a textile certification system that works to prevent chemicals of concern from entering into materials at each step of the manufacturing process.

REI has been a bluesign member since 2008. During that time we converted 25 percent of fabric in REI's private label products to the bluesign certification. Near the end of 2013, REI committed to using only 100 percent bluesign certified fabrics by the time we launch our 2018 lines of privately branded products. The new 100 percent target signals REI's commitment to accelerating this progress.

Product Packaging

REI is committed to reducing the environmental impact of our business, including how we package our products. Since 2007, we have advanced our efforts from simply reducing the weight of packages of REI Private Brands to fully optimizing their design.

Our goal is to move beyond the traditional "reduce, reuse, recycle" model to eliminate waste at the front end of the manufacturing process. REI defines sustainable packaging as addressing the entire life cycle from material sourcing, packaging design, manufacturing, transport and recovery or disposal.

The most critical area of improvement is creating clear, consistent and transparent messaging about the environmental impacts of our packaging, including recyclability claims and preferred end-of-life options for those packages. A notable achievement has been aligning with the broader packaging industry to develop the [How2Recycle Label](#). It is a voluntary, standardized labeling system that clearly communicates instructions for consumers on how to recycle packaging. You can read more about this work [here](#).

With the assistance of the Outdoor Industry Association and the Sustainable Packaging Coalition, REI also defined sustainable packaging guidelines to encourage and educate our vendors. These guidelines assisted REI Private Brands division, all of the brands we sell within our stores, and the greater outdoor and cycling industries.

Optimizing the design of our product packaging yielded several key successes in 2013. For example, we used 40 percent less energy through digital printing and printing to order. We also developed an industry first with our hangtag program by integrating paper that is 100 percent certified under a credible certification program and printed in a mill that uses 100 percent renewable energy. This program totals 11 million tags for REI and Novara apparel annually, equating to 128,000 pounds of paperboard.

Overall, we are working to extend our efforts beyond REI's walls by engaging our companies to collaborate with us and use our innovative designs. For that reason, we intentionally do not patent those designs so that others can easily join us in reducing the environmental impacts of their packaging.



Industry Collaboration

Approximately 80 percent of the products we sell at REI are made by other brands and manufacturers. As a result, we actively connect with like-minded organizations to influence entire supply chains—and the industry—for the better.

Some of these partnerships include:

- [Outdoor Industry Association \(OIA\) Sustainability Working Group](#) – Collaboration of more than 150 outdoor industry brands, suppliers, manufacturers and other stakeholders. The Sustainability Working Group launched the industry's first environmental assessment tool: the Eco Index. REI's Fair Labor Compliance manager co-chairs the Education Working Group, founded to increase awareness of fair labor best practices with the Social Responsibility Working Group. Partnering with Patagonia's social compliance director, the co-chairs oversee webinars hosted at the twice-yearly Outdoor Retailer trade shows on the value of collaboration, transparency and capacity building.
- [Sustainable Apparel Coalition \(SAC\)](#) – Large industry group that includes, by some estimates, 60 percent of the apparel value in the world. The SAC has built upon the OIA's Eco Index to create the [Higg Index](#), a new tool being adopted globally. With a shared approach to sustainability, we can make real progress in environmental and social areas.
- [Sustainable Packaging Coalition \(SPC\)](#) – Industry working group dedicated to encouraging more economic and sustainable packaging. REI has worked in partnership with SPC since 2007. Our greatest achievement has been aligning with the greater packaging industry to develop the How2Recycle Label. It is a voluntary, standardized labeling system that clearly communicates instructions for consumers on how to recycle packaging. The label improves the reliability, completeness and transparency of recyclability claims, and follows Federal Trade Commission Green Guides.
- [Textile Exchange](#) – Nonprofit organization founded in 2002 to inspire and equip people to accelerate sustainable practices in the textile value chain. Originally focused on organic cotton, Textile Exchange has become one of the industry's leading sources of sustainability knowledge and traceability standards. REI has worked with Textile Exchange to better understand the environmental impacts of our supply chains. Through our joint membership in the SAC, we have also partnered to create tools that support design teams in selecting better materials.
- [International Labour Organization \(ILO\)](#) – The ILO Better Work (BW) program shares expertise in labor standards, social dialogue and private sector investments through a unique collaborative framework for improving working conditions around the world. The ILO BW program model aligns well with REI's fair labor goals and offers a network of resources to leverage compliance efforts. REI's Vietnamese and Cambodian suppliers received assessments, training and advisory support from local program staff in 2013. The program approaches remediation through a



working committee that is composed of workers and management representatives, which is a key factor to sustainability and supplier ownership of compliance programs.

- [Fair Factories Clearinghouse \(FFC\)](#) – A system of record for achieving reliable information on vendor and factory counts, contacts, self-assessments, audits, remediation plans and REI Factory Code of Conduct Agreement tracking, within a collaborative member community. In 2013, FFC made significant improvements in its reporting capabilities and functionality.

Higg Index

The Higg Index is a suite of sustainability tools developed by the SAC to measure environmental and social impacts. Each of these tools—called “modules”—is used to assess apparel and footwear supply chains. The modules provide different lenses for understanding the effects of our business and setting improvement targets. For example, the environmental modules are based on leading life-cycle thinking and address the environmental impacts of raw materials, product manufacturing, packaging, transportation, use and end-of-life. Likewise, the social/labor modules were built upon the best practices outlined by leading nonprofit organizations with expertise in improving factory working conditions, including the Fair Labor Association, Social Accountability International, and the Global Social Compliance Program.

REI was one of the founding members of the SAC, which now includes more than 100 companies in the apparel and footwear industries that have committed to having a positive impact on the people, environment and communities associated with manufacturing their products. As the Higg Index has grown, so too has our use of the modules. For example, we assessed 23 of REI Private Brands’ manufacturers using the Environmental Facility Module. You can read more about this work [here](#).

Throughout 2013, REI was directly involved in creating some of the Higg Index tools. For instance, the Social Labor Facilities and Brand Modules were completed in late 2013. These modules will provide a consistent approach to assessing how REI and its suppliers incorporate social compliance into their operations. Both tools will be used globally by all SAC members at their respective headquarters and facilities.

On the product side, REI designers used the Higg Index Product Module to assess 24 of our high-volume REI brand apparel products in 2013. During this pilot we identified a number of opportunities to reduce the environmental impacts of these products. Specific changes included:

- Shifting fabric suppliers to support manufacturers with rigorous third-party environmental certifications;
- Adding more recycled content;
- Providing “low impact” care labels to the garments; and
- Transitioning to more environmentally sensitive garment washes.



Our design team also used the Higg Index Product Module as the impetus to focus on improved fabric yields. The fabric yield, or “marker efficiency,” is the amount of raw material that gets incorporated into the final product after the bolt of fabric is cut and sewn. In our 2014 Sahara Men’s line of hiking products, the designers reduced fabric consumption by 4,000 yards through small, but meaningful changes to the design patterns. This provided both economic and environmental savings.

In another example, based on our designers’ experience with the Product Module, we provided guidance and oversight for the development of the Rapid Design Module. This exciting new tool is being tested by designers around the world to measure product sustainability through a common framework. It provides designers with guidance on opportunities to reduce environmental impacts.

REI staff also played an active role in the release of the [Material Sustainability Index](#). This tool provides design teams with guidance on the environmental impacts of 48 commonly used materials. Designers can compare similar materials—nylon and polyester, for example—to understand environmental “hotspots” and identify opportunities to reduce the environmental impacts.

Other Brands Sold by REI

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

We will continue to share and learn in ways that benefit the entire industry, with the goal of operating more efficiently and with less impact on the planet.



Workplace

Every day, more than 10,000 REI employees represent the co-op's brand, culture and values through connections with 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 leader in the outdoor industry.

Employees keep our business thriving, and in turn we want to [keep them engaged](#), happy and healthy. We're proud to be a nationally-recognized employer, providing our employees with an [inclusive, welcoming workplace](#) and supporting them with [comprehensive pay and benefit programs](#). Our commitment to provide a meaningful, fun and fulfilling workplace has helped make REI one of [FORTUNE magazine's "100 Best Companies to Work For"](#) for 17 years in a row. While we believe this ranking demonstrates employee 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.

Comments

We welcome your thoughts on our 2013 stewardship via email at stewardship@rei.com. Your feedback supports our goal of providing information that is relevant and important to our members, customers, partners, employees and others.



Employee Engagement & Retention

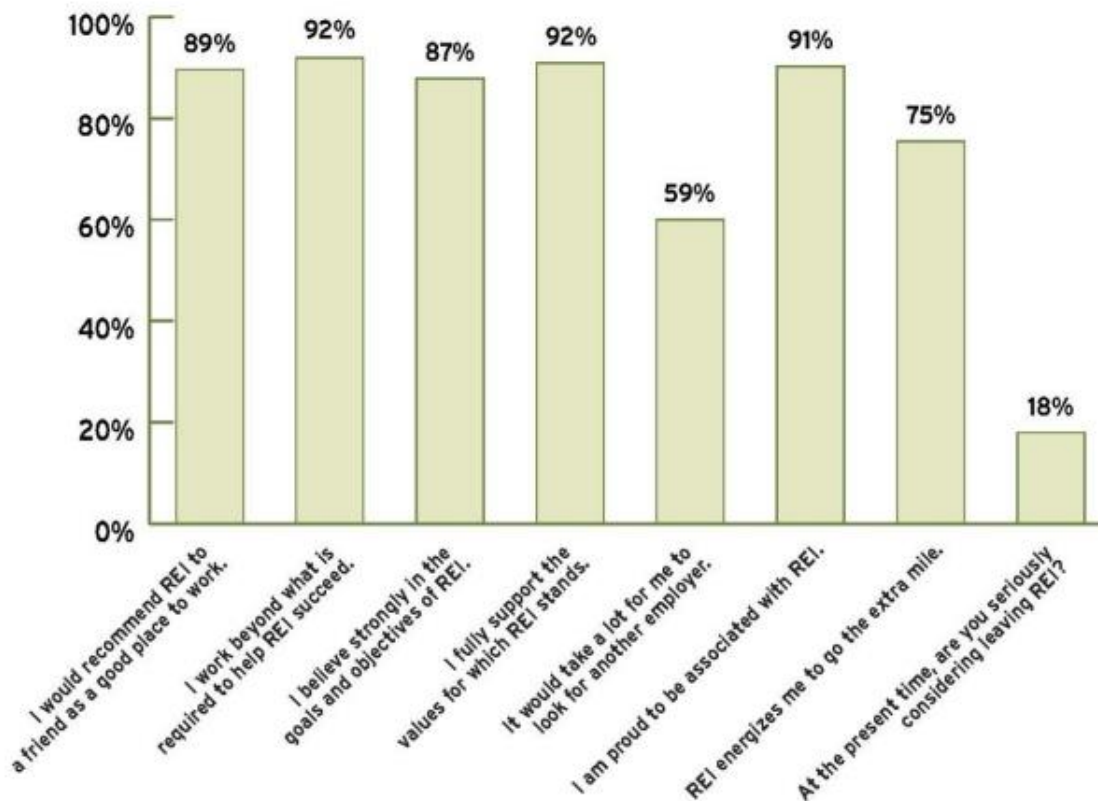
REI’s roots as a co-op and our core purpose—to inspire, educate and outfit for a lifetime of adventure and stewardship—are the foundation of our unique workplace. When employees feel connected to our core purpose, they stay engaged in our business and enthusiastically represent REI every day to our members,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

Employee Engagement Survey

We measured employee engagement levels in 2013 through our annual anonymous survey made available to every employee. Conducted by an independent firm, the survey tracks key engagement indicators and provides comparison results to peers in the retail industry. The survey asks for employee feedback on key topics, including commitment, supervision, customer focus, operational and leadership effectiveness, and communication.

REI has historically had an impressive employee survey participation rate and 2013’s response rate was strong at 80 percent. Overall survey results showed that 81 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:

2013 Employee Engagement Index (Total Favorable)



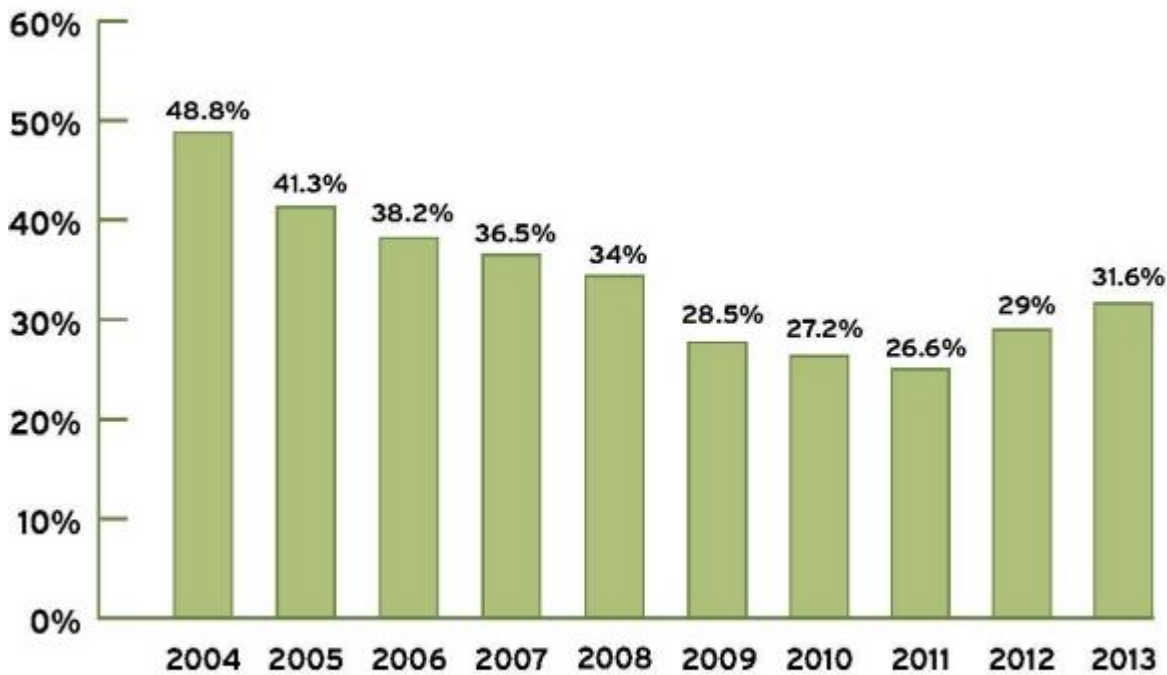


High engagement means that employees say that they are connected to REI values, committed to being involved, motivated to drive success and planning to stay with the company. These attributes reflect that employees feel satisfied at work. These attributes also contribute to other strong indicators, including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

Turnover & Retention

Despite ongoing high employee engagement, we realize that the effects of the challenging economy, a dynamic retail environment and limited job growth influence our employee retention. In 2013, REI’s overall turnover was 31.6 percent, a slight increase over 2012.

Overall Company Turnover*



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

Our 2013 retention rate was 74.6 percent, as compared to 77.1 percent in 2012. Employee retention is calculated using the percentage of new hires from a particular year who are still employed at year-end.

We’re committed to supporting our employees by making sure they see how their individual contributions support REI’s overall business direction and strategy, maintaining open lines of communication, providing valuable [pay and benefits](#), and fostering dialogue.



Diversity and Inclusion

For many years, REI has worked to create a welcoming, inclusive environment. We believe diversity and inclusion are foundational to realizing our aspiration to serve our members and customers for 100 years and beyond.

Our vision for diversity and inclusion 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 fulfill 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 and build relationships that support our business

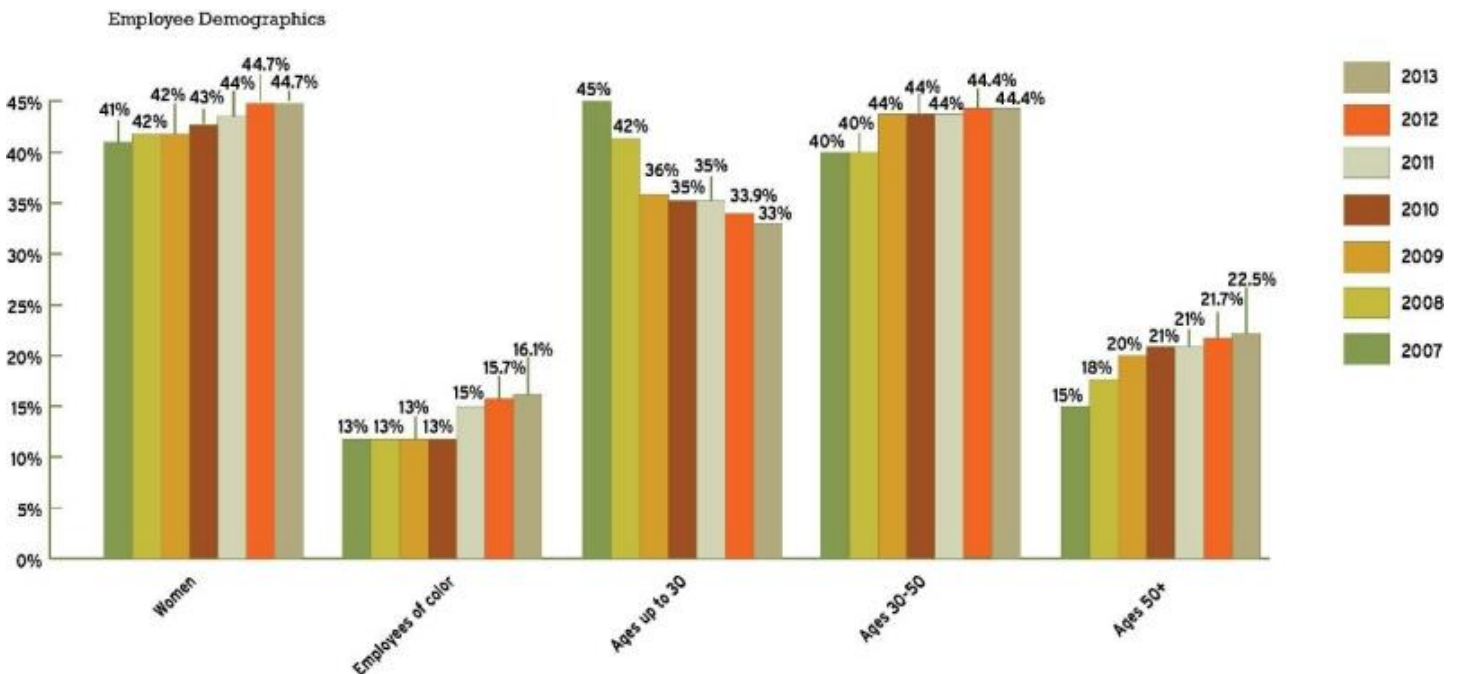
Customers

We use data to learn about diverse segments of outdoor enthusiasts, so that we can engage in relevant ways.

Compelling data regarding rapid population growth, relevant purchase patterns and an expanding outdoor enthusiast market present a unique opportunity for REI to reach the U.S. Hispanic customer. In 2013, REI began to test marketing strategies to reach this group. We developed capabilities to track brand awareness and engagement to determine how we might better serve prospective customers and members.

Employees

At REI, our employees are more than just retail experts; they are members of the co-op and share our vision for a welcoming workplace. In 2013, our diversity has trended steady, as shown in the chart below.





Building a welcoming environment

In 2013, we built on our prior inclusion training with a two-hour workshop delivered to REI's entire retail management team. Titled "Creating a Welcoming Environment," the training focused on the importance of bias-free customer service and used a small group case study to place participants in the shoes of our customers.

Supporting marriage equality

Our dedication to an inclusive workplace and customer experience is critical to REI's success. We are a company with a long history of making a commitment to being a responsible and equitable employer and a business that respects and welcomes diversity. This has allowed us to remain a [Top 100 employer](#) and maintain our high standing in the Human Rights Campaign's [Corporate Equality Index](#). Historically, REI's public policy agenda focuses on public lands. However, we believe marriage equality is a human rights issue and felt it was important to take a clear stance. By supporting marriage equality, REI not only supports its employees, but also lets people know that we are an inclusive, mutually respectful, welcoming place to work and do business.

In 2013, REI [signed on with many other companies](#) in support of landmark legal cases challenging the federal Defense of Marriage Act (DOMA) and California's Proposition 8, both of which prohibited same-sex marriage. In both cases, REI joined other employers contending that these laws force employers to discriminate between different groups of employees when offering benefits.

Partnerships

REI's national strategic partnerships and events are designed to engage existing diverse segments who are outdoor enthusiasts, but who may not be currently involved with REI. In 2013, we successfully grew our National Diversity Partnership Initiative, built on the success of national partnerships including Black Girls Run, National Brotherhood of Skiers, Outdoor Afro and Expedition Denali. We turned up the volume on our efforts with stories told through social media channels, partnerships with vendors and sponsoring unique events.

For example, REI became the official retailer of the American Latino Heritage Fund's [American Latino Expedition](#), a project that sponsored nationally-chosen bloggers to explore and write about national parks. It showed us that REI can act as an amplifier for brands and influence the industry to support key initiatives.

As an extension of our partnership with the [Outdoor Industry Women's Coalition](#) (OIWC), we also participated in a mentoring pilot for women. This pilot was designed to connect women across companies in the outdoor industry for the purposes of strengthening professional networks, creating a broader line of sight to the industry and advancing women's careers.



At the local level, we built awareness and relationships by making connections between chapters of our national partners and their local REI stores, and engaged in more than 25 local partnerships related specifically to diversity.

Pay and Benefits

An important way we embody our values is by supporting our employees through programs that allow them to flourish and do their best. We offer a variety of benefits and perks that show respect for our employees and their families. Highlighted below are several benefits that are well above average in the retail industry. [Click here](#) for a more detailed overview of REI's employee benefits program.

Health Care Coverage

Providing employees with affordable health care benefits aligns with our values. For this reason, we have generous eligibility guidelines. Employees who work at least 20 hours per week, regardless of part-time or full-time status, are eligible for comprehensive health coverage and life and disability insurance through our REI Flex Plan. The REI Flex Plan has three national medical plan options—each with different features and price points. One option includes a high-deductible health plan that offers a Health Savings Account funded by REI. For employees who work less than 20 hours per week, we provide a variety of tools to help them understand their options as they navigate the public health insurance marketplaces.

Each Flex Plan option covers core services (like preventive care) at no cost to employees. REI subsidizes up to 96 percent of the premium for employee-only medical for our lowest cost plan, which is considerably higher than what most retailers offer. More than half of our employees were enrolled in our Flex Plan at the close of 2013.

To keep health care benefits affordable for our employees, we have a sliding scale premium structure with four bands based on an employee's annual base pay. Fifty-three percent of REI's employees pay the lowest amount for coverage, and REI subsidizes more than 90 percent of the cost of medical insurance in our lowest-cost plan for 78 percent of our employees.

Culture for Wellness

Good health and well-being are attributes everyone strives for. Our employees are already inclined to get outside and be healthy, but for those who need a little more motivation, REI has programs in place to help them. All our health plans cover preventive care and maintenance drugs for chronic conditions, and tobacco cessation at no cost.

All employees also have access to the Employee Assistance Program to help them meet the demands of day-to-day life needs. The program offers five free counseling sessions and also provides concierge services to help employees get access to goods and services. We also offer Flex Plan-eligible employees \$300 to apply towards their benefit costs by simply taking an online well-being assessment to help them become more aware of their potential health risks.



Commuter Benefits

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

Saving for Retirement

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

- A set and budgeted contribution of five percent of base pay (even if employees don't contribute themselves)
- A discretionary profit-sharing retirement plan contribution up to an additional 10 percent based on company performance

In early 2014, REI funded more than \$21 million in contributions based on the company's performance in 2013. More than 5,700 employees received the five percent company retirement contribution and an additional five percent profit-sharing contribution, for a total contribution of 10 percent of base pay. This amount far exceeds the retail industry norm of three percent.

All employees may also contribute their own pay to the Retirement and Profit Sharing Plan. In 2013, we allowed employees to defer up to 75 percent of their incentive payout into the plan.

Incentives for Performance

Employees receive incentive awards based on how well the overall co-op performs and how each division or store performs. This benefit is offered to *all* employees, regardless of tenure or role. In early 2014, eligible employees shared an incentive plan payout of over \$31 million based upon REI's performance in 2013.