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Welcome Letter from Sally Jewell

When Lloyd and Mary Anderson founded REI as a consumer co-op in 1938, they began a "virtuous cycle" by which REI's success translates into value for our members, customers, and communities. Seventy years later, we are proud to continue the Andersons' legacy by working to conserve nature and encourage the responsible use of the outdoors for the enjoyment of future generations. Our core purpose to inspire, educate and outfit people for a lifetime of outdoor adventure and stewardship guides our business operations and relationships with our members and communities.

As part of our commitment, we are pleased to publish our second annual stewardship report. This document reflects your co-op's strategic priorities on the social and environmental impacts of our business and how we are working to better serve our communities and identify opportunities to improve our operations. We recognize that our stewardship efforts are a journey. While our report shows progress, we also want to be transparent about areas where we have work left to do.

We invite you to read more about our work in the following:

[Community](#) — This section describes our efforts to encourage active hands-on conservation efforts and grow participation in responsible outdoor recreation, with a particular focus on engaging youth.

[Environment](#) — This section describes our achievements and opportunities in reducing the impact of our business operations on the environment, specifically, energy use, green building, paper use, waste reduction and responsible products.

[People](#) — This section describes REI's commitment to being a welcoming and rewarding place to work, and how the cooperative supports socially responsible factory manufacturing around the world for the REI brand and in collaboration with other companies.

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

Warmly,

Sally Jewell

REI President and CEO



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Community

Stewardship is deeply embedded throughout the co-op — from our retail employees to those in our distributions centers and headquarters. Our comprehensive efforts take many forms to involve more individuals, groups and communities in human-powered outdoor recreation and volunteerism.

Through nonprofit partnerships, targeted programs, and in-store [classes and clinics](#), we aspire to help others be active in outdoor recreation and realize the benefits of healthy outdoor lifestyles; protect and enhance natural lands; and prepare the next generation of outdoor stewards.

We believe our most positive impact is achieved when working alongside nonprofit partners and our members in the nearly 100 communities where we have a presence. We are thankful for those who share our commitment and join us in our efforts. Together we have much to be proud of. We look forward to continuing to share our success with our communities, and welcoming and engaging more individuals to the joys of the outdoors.

In this section, we invite you to learn more about our [comprehensive giving approach](#) and efforts to increase [outdoor recreation participation](#), and [conserve natural spaces](#) for the enjoyment of others. We also provide information on the [REI Foundation](#) and our [local and national advocacy](#).

Comments

We invite your [feedback](#) on our 2007 stewardship report. Your comments will support our ongoing goal of providing relevant information that is important to our members, customers, partners, employees and others.



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Environment

Our business is the environment — individuals use our products and services to experience the natural world. We recognize that as our business grows, so does our environmental impact. Protecting and enhancing the natural world is essential to our future.

The best way we can protect and enhance the natural world is through strategic planning and structured action, as opposed to committing random, albeit well-intentioned, acts. To us, this means driving toward improvements in our practices year after year to reduce our impacts on the natural world while continually looking for breakthroughs we will need to achieve our long-term aspirations.

We recognize that we can't do it alone. We are committed to collaborating with industry partners, communities and nonprofit organizations to find better ways of reducing our impact on the planet.

We've identified the areas where we have the strongest opportunities to minimize our environmental footprint, provide the greatest return to the business and address the issues our members, employees and communities see as most pressing. These include reduction of [greenhouse gas emissions \(GHG\)](#), [paper usage](#), [waste and recycling](#), [green building](#) and [product stewardship](#).

Comments

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People

Our reputation for quality products, knowledgeable expertise and friendly service is strengthened by our nearly 10,000 employees — a passionate team that is eager to share the outdoors and protect public lands for future generations. In this section we highlight some of our industry-leading employee benefits and companywide initiatives that, together, help reinforce why REI continues to be an employer of choice, respected brand and industry leader.

The safety and well-being of people employed by our manufacturing partners is equally important. We focus on working to achieve factory compliance in contract facilities where our products are manufactured, and collaborate with industry peers on common compliance standards where non-REI branded products are developed and made.

Our second annual stewardship report contains the following sections:

- [Workplace](#)
- [Factory & Labor Compliance](#)

Comments

We invite your [feedback](#) on our 2007 stewardship report. Your comments will support our ongoing goal of providing relevant information that is important to our members, customers, partners, employees and others.



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About this Report

REI's second stewardship report covers the co-op's activities and performance related to our social and environmental responsibility during the 2007 calendar year. The performance metrics and data shared within this online report include the majority of our operations and facilities (headquarters, distribution centers, retail locations and supply chain manufacturing), unless otherwise noted.

Our first report, which covered efforts from the 2006 calendar year, established a process comprised of milestones, numbers and storytelling surrounding our stewardship priorities. The report's goal was – and remains – to be transparent in our actions and hold ourselves accountable for the goals we set to our members, customers, communities and employees.

The 2007 stewardship report provides an update on our progress toward the goals we communicated last year. Our stewardship efforts are an ongoing process where we have implemented our initiatives and programs, applied our learnings and measured our progress.

Defining Stewardship

REI's core purpose is to inspire, educate and outfit for a lifetime of adventure and stewardship. At the co-op, stewardship is defined as our efforts to:

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

Report Structure

REI's 2007 stewardship report is structured into the following sections — [Community](#), [Environment](#) and [People](#). For cross reference, these sections were entitled Active Stewardship, Sustaining Our Natural World, and People in our 2006 stewardship report. For additional details on the content of each section, please visit the report's [table of contents](#).

Materiality

To determine the most relevant subjects to include in REI's 2007 stewardship report, we built on the foundation we established in 2006. The scope of our reporting was informed from internal and external stakeholders: employees, leadership, REI's board of directors, members and customers, local community constituents, nonprofit partners and advocacy groups. REI's Corporate Social Responsibility Steering Committee, leaders and managers, who represent aspects of the cooperative, provided oversight in the development of the report content. REI's board of directors provided input into our goals, metrics and measurement.

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

While we hope to keep our online information updated and accurate, REI stewardship reports will be archived and maintained with open access for future reference.

Comments

We invite you to read the full 2007 stewardship report, share our highlights brochure with others and give us your [feedback](#). Your comments will support our ongoing goal of providing relevant information through this report that is important to our members, customers, partners, employees and others.



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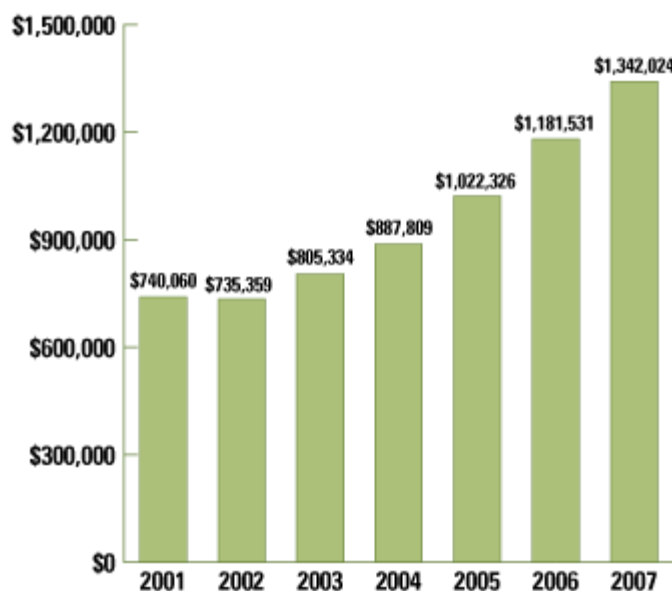
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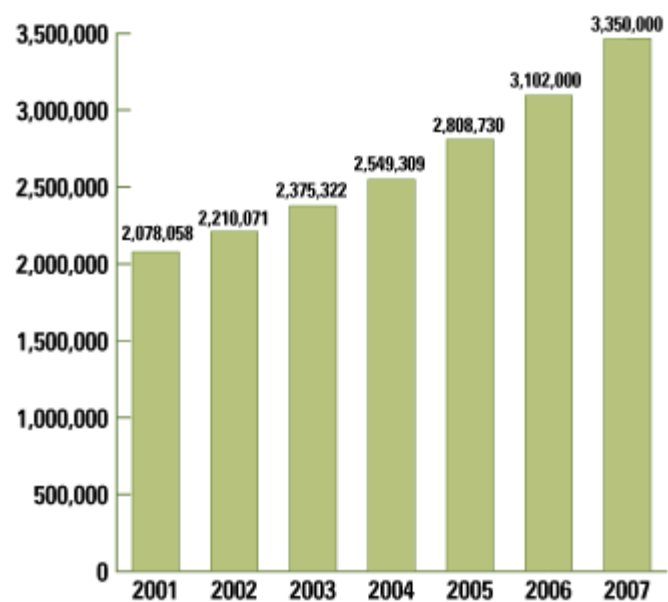
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Quick Facts

REI Sales (in thousands**)

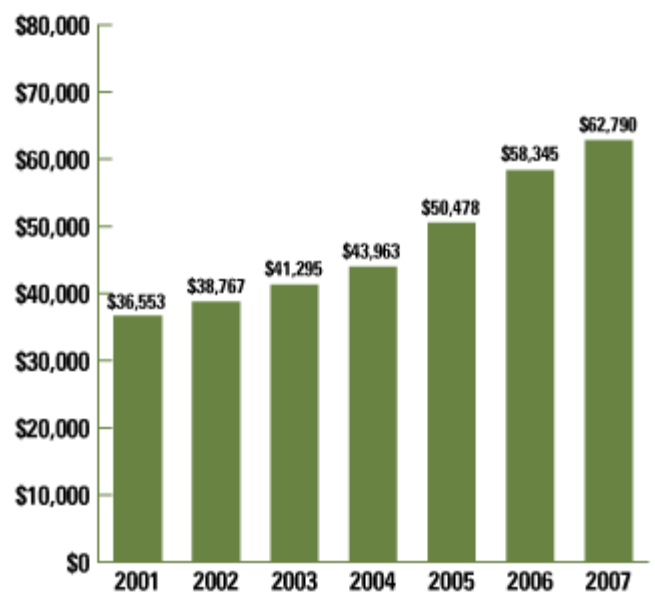


REI Active Members*

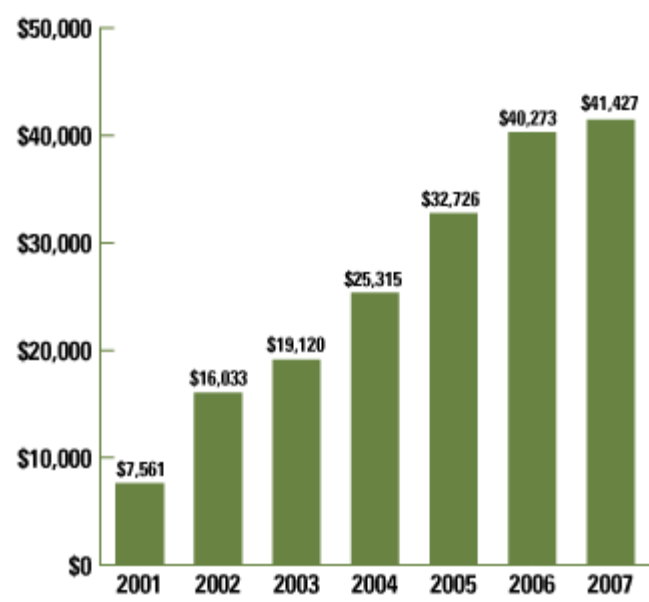


* According to REI's bylaws, an active member is having joined the co-op or spent at least \$10 during the year.

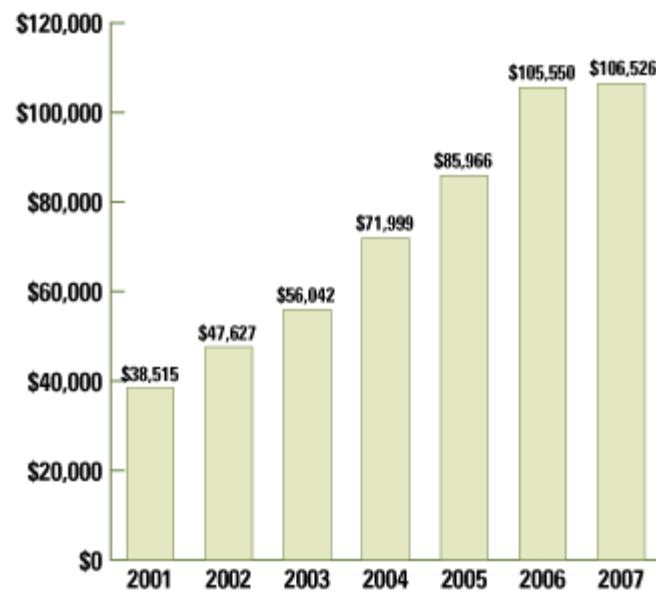
REI Member Dividend (in thousands**)



REI Net Income (in thousands**)



REI Operating Income (in thousands)**



** REI corrected graph to read in thousands versus in millions, 5/5/2008.



REI STEWARDSHIP

HIGHLIGHTS FROM OUR 2007 REPORT

PITCH IN WITH REI

BECOME A STEWARD OF THE ENVIRONMENT

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

GET CONNECTED. Learn about stewardship events in your community by visiting REI.com/stores. You can also discover meaningful volunteer opportunities with nonprofits that match your interests at REI.com/volunteer.

WORK AT REI. Be with people who share your values and passion for the outdoors. Work in a place where integrity, respect and fun all play a part in our success. To learn more about joining the REI team, please visit REI.com/jobs.

SHARE YOUR THOUGHTS. How is REI doing in our stewardship efforts? Give us your opinion by taking our online survey at REI.com/stewardship.

We choose to print on Forest Stewardship Council certified recycled paper as part of our commitment to responsible forestry.



OUR COMMITMENT

HOW WE CARE FOR THE WORLD

Taking care of the environment is a natural extension of our love for the outdoors. As a business, we're committed to reducing the negative impact our co-op has on the planet. We're also using our actions in the marketplace to address some of the world's biggest challenges.

By making strategic investments and finding creative solutions, we're using our business to drive change and create demand in areas such as renewable energy. These efforts are helping to build a stronger future for the co-op.

WHERE WE LIVE AND PLAY

Our stewardship work involves employees and members, and extends into the larger community. Through collaboration with nonprofits, industry peers and others, we share our experiences and learn from organizations that have implemented successful strategies.

We hold ourselves accountable by publicly reporting results in three areas: community, environment and people. This brochure presents some of the exciting highlights of our progress last year. To read our complete 2007 stewardship report—and learn how you can join us—go to REI.com/stewardship.



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

COMMUNITY

INVESTING IN STEWARDSHIP

In 2007, REI donated \$3.5 million to conservation and outdoor recreation nonprofits and causes at the local and national levels. Our grants program seeks to engage communities—especially youth—in outdoor activity and stewardship. Because REI employees work, play and volunteer where we do business, we primarily use employee nominations to determine which nonprofits receive our grants.

ENCOURAGING COMMUNITY INVOLVEMENT

REI employees are active in caring for public lands and open spaces. We also invite our members and customers to join us in volunteer service projects organized by nonprofits and our stores. In 2007, nearly 33,000 volunteers teamed with REI employees to restore trails, clean parks and streams, and plant trees.

2,149,870 volunteer hours committed through our support of nonprofits in 2007.

688 outdoor service projects hosted by REI.

INSPIRING THE NEXT GENERATION

REI focuses on educational outreach programs and grants that provide opportunities for outdoor fun and mentorship in order to encourage more children to enjoy the outdoors and respect natural lands. Together with our partner, Leave No Trace, we facilitate a year-round program called Promoting Environmental Awareness in Kids, or PEAK. The program is in its sixth year, and all materials are also now available in Spanish.



ENVIRONMENT



BUILDING GREEN: TWO GIANT STEPS

In 2007, we opened two more buildings that were constructed using U.S. Green Building Council's LEED guidelines—a leading green building standard. Our second distribution center in Bedford, PA, received LEED Silver Certification for New Construction, while our new award-winning prototype store in Boulder, CO, is part of

142,435 kids learned Leave No Trace ethics.

LEED Silver certification for our new distribution center.

a USGBC pilot program (LEED for Retail) to create certification procedures that are less costly and time intensive. Both new buildings optimize energy efficiencies while minimizing environmental impact. For example, our Boulder store features lighting fixtures that channel natural daylight throughout the building, saving 20% in energy costs, and a solar hot water system that meets 70% of the store's hot water needs.

ECO-SENSITIVE PRODUCTS

Last year we expanded the number of REI-brand products made with a high percentage of recycled, rapidly renewable and/or organic fibers. A special logo provides our customers with information to help guide their purchase decisions. In the coming seasons, we'll increase the number of REI-brand eco-sensitive products and raise the bar by which we define our standards.



MAKING RESPONSIBLE PAPER CHOICES

REI is committed to the responsible purchase and use of paper and paper products. We endorse the Forest Stewardship Council (FSC) as our standard for responsible forest practices, and we work to ensure that fiber comes from acceptable sources. Our goal is to know the origin of all the paper we purchase—from harvest to use. In 2007, 89% of the paper we purchased was obtained from known fiber sources.



ADDRESSING CLIMATE CHANGE

As part of our commitment to being climate neutral by 2020, we've implemented a comprehensive effort to identify, track and report our greenhouse gas emissions. We reduced our net emissions in 2007 by purchasing renewable energy. It now accounts for roughly 20%

Over 40 REI-brand products display our ecoSensitive logo.

16.8% of the paper we purchased was FSC certified.



of our electricity use. In addition, REI Adventures became the largest climate-neutral travel business in the country through our purchase of certified offsets.

MANAGING WASTE

For all operational waste generated in 2007, such as paper, cans, bottles and wooden pallets, we recycled 82.5% when

measured by weight, 68.7% by volume. As we move toward our goal of achieving zero-waste-to-landfill status by 2020, our 2009 target is to reduce waste-to-landfill by 50% from 2006 levels.

PEOPLE

CREATING A WELCOMING AND DIVERSE WORKPLACE

REI is committed to ensuring an open and welcoming environment for employees, customers and members. Our goal is to serve a broad spectrum of people who enjoy the outdoors and active lifestyles. Annually, we conduct an internal survey company wide asking employees how we're doing. Results help us maintain our great environment. In 2007, employees rated REI 90% favorable, indicating the environment in which they work is welcoming and inclusive. We're also recognized by *Fortune* magazine as one of the "100 Best Companies to Work For in America" for the 11th consecutive year.



70 tons (approx.) of cardboard were recycled each month last year at our Sumner, WA, distribution center.

34th overall rank on *Fortune* magazine's "100 Best" list.

ETHICAL SOURCING AND MANUFACTURING

We have the responsibility of ensuring that REI-brand products are made under appropriate conditions and with respect for the workers who produce them. Our sourcing standards clearly spell out our expectations to the factories with which we do business. Using third-party audits, we continue to monitor factories where our products are made. This helps REI take corrective actions when necessary and publicly report on our findings.



READ OUR COMPLETE 2007 STEWARDSHIP REPORT ONLINE: REI.com/stewardship



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Giving Philosophy

REI's giving approach revolves around the two pillars: outdoor recreation and conservation. Since 1976, the co-op has provided nearly \$25 million to nonprofit organizations. The co-op's annual giving budget, approximately three percent of the previous year's operating profits, is approved each February by the board of directors.

In 2007 we donated \$3.5 million to 360 local and national groups — a 16 percent increase from 2006 in our giving.

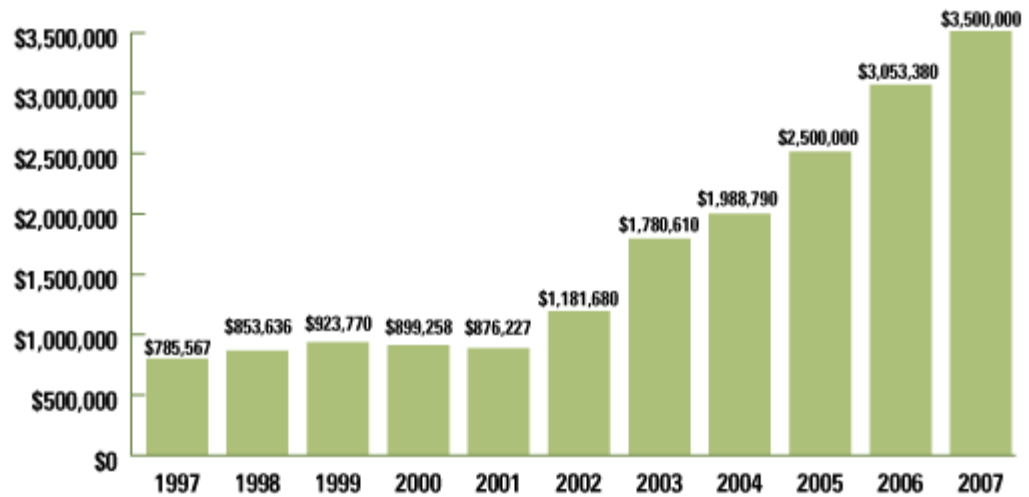
REI's giving efforts differentiate the co-op from many companies. The majority of our grants program is guided by nominations from the nearly 10,000 employees who work, play and volunteer in the communities where we have a presence. Because REI employees have the most direct connection with local nonprofits that share our stewardship commitment, they identify potential grantees in their local communities. We do not accept unsolicited grant requests and proposals.

REI employees also coordinate and recruit volunteers for service projects, and generously donate their time and expertise to help organizations and individuals learn, grow and experience the outdoors.

Results from 2007 include:

- 305 employee-nominated grants
- 9,730 miles of trail and 14,680 acres of land maintained (via nonprofit grant support)
- 2,149,870 of hours of labor committed from more than 260,000 volunteers (via nonprofit grant support)
- 688 REI-hosted volunteer projects
- \$662,480 donated by employees to their favorite causes through REI's annual [Charitable Action Campaign](#). When adding the co-op's matching dollars into the efforts, almost \$1.2 million was donated.

REI Annual Giving Budget





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Recreation

Since 2001, the percentage of individuals participating in outdoor activities has declined, while the number of outings taken has dropped more significantly (Outdoor Industry Foundation "2006 Participation Study", June 2006). Further, visits to the country's national parks have declined in total numbers and relative to the growth of the U.S. population (2006 National Park Service Statistics; U.S. Census Population Estimates).

We believe REI plays an important role in helping to reverse these trends, through programs and events and partnering with nonprofits.

In this section, we provide information on some of the ways we support recreation access and help others be active in human-powered outdoor activities, such as:

[Grants to Local Non-Profits and National Partnerships](#)

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Grants to Local Non-Profits and National Partnerships

Of the \$3.5 million distributed in 2007, more than 40 percent of the co-op's giving budget was dedicated to community-based nonprofits that share our commitment to conservation and recreation, with an emphasis on reaching youth.

Because our grants program is focused on the communities where our employees live, work and volunteer, they help nominate local nonprofits for consideration. Last year, REI's community-based grants program helped support 305 organizations.

We continue to donate our stores' meeting and event space as a service to recreation clubs and conservation nonprofits. We also welcome them to post volunteer announcements and event information on our store Outdoor Resource Center bulletin boards to bring awareness to their efforts.

The co-op is also proud of our many national nonprofit partners that are dedicated to helping thousands of individuals enjoy safe and responsible recreation.

Examples of our nonprofit partnerships include:

Adventure Cycling Association (Missoula, Mont.) — Support the development of a 2,058-mile bike route along the Underground Railroad from Mobile, Ala. to Owen Sound, Ontario in Canada.

Bikes Belong (Boulder, Colo.) — Help fund the Bicycle Friendly Communities Grants Program, presenting grants twice annually to help cities across the country achieve their bicycle friendly goals.

Wilderness Inquiry (Minneapolis, Minn.) — Support the year-round wilderness adventure program reaching youth aged 13 to 18 to educate on outdoor and camping skills, and leadership development.

American Canoe Association/Red River Division (Dallas) — Support the nonprofit's programming that works with persons with disabilities who desire outdoor recreation experiences.



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REI Outdoor School

REI's Outdoor School provides one and two-day educational experiences designed to make it easy for our customers and members to learn the necessary skills to recreate outside. The REI Outdoor School provides equipment and transportation to local parks, and professional instruction. In-store classes, one-day outings and overnight courses are offered in a wide range of interests to anyone wishing to learn a new activity or brush up on existing skills. Course offerings include mountain biking, rock climbing, road cycling, kayaking, hiking, family outings, outdoor photography, navigation and more. Classes and outings are available for a nominal fee, with REI co-op members receiving discounts.

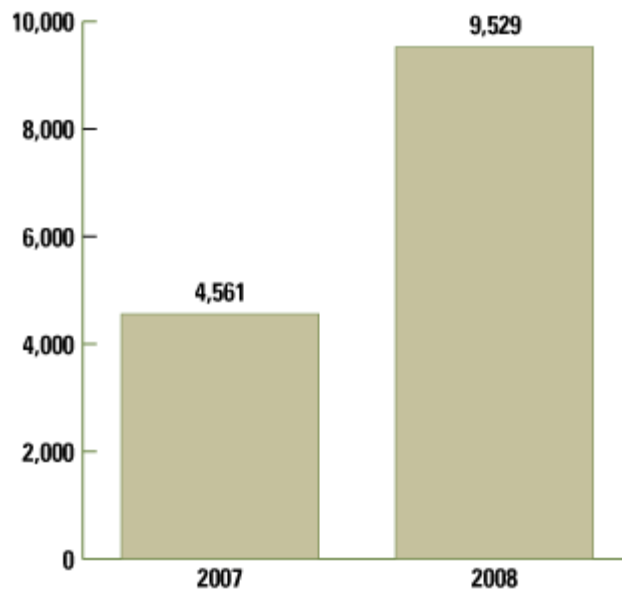
Launched in 2006 in five REI markets, the co-op's Outdoor School program was expanded to seven markets in 2007. Today, Outdoor School operates year-round in:

- Massachusetts and Rhode Island
- Greater Los Angeles (Orange County/Inland Empire)
- Philadelphia and New Jersey
- Sacramento and Reno
- San Diego
- San Francisco Bay-area
- Washington DC and Baltimore, MD

In 2007 the program reached 9,529 participants — more than double the attendance from the previous year.

In the coming year, we are focused on expanding Outdoor School to include a wider range of year-round offerings in each of the markets, including "How to Ride a Bike," "Introduction to Overnight Backpacking," and "Rock Climbing." In addition, we will expand our offerings to several new stores in regions where we currently operate.

REI Outdoor School (individuals)





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REI Kids Passport to Adventure

Inspiring children and their parents and caregivers to enjoy nature and outdoor recreation together is the goal of REI's *Kids Passport to Adventure* program. The complimentary program provides adults the tools for healthy diversions for youth aged five to 12 during the spring and summer months.

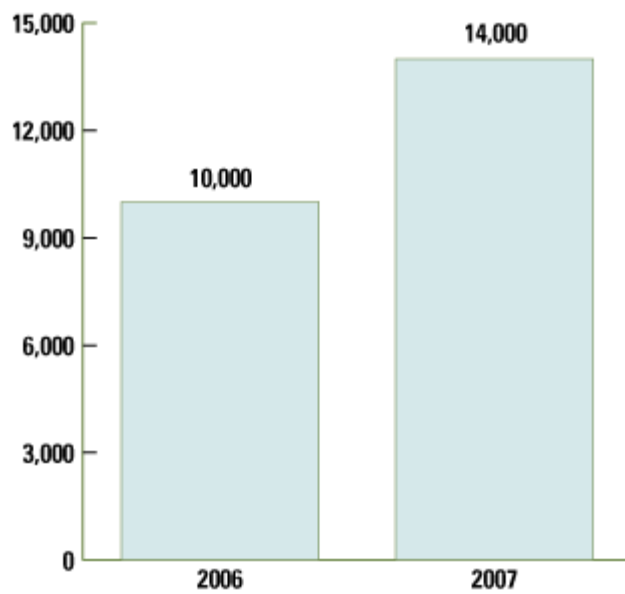
Initially introduced by our store in Tacoma, Wash., REI's Passport to Adventure program was launched nationally in 2006. The program includes employee recommendations for regional kid-sized, family-friendly hikes and bike rides and a journal for kids to jot down field notes, create drawings, play games and express their thoughts about their adventures. Directions and other helpful tips are also provided.

Children who completed their outdoor adventure can have their passports stamped and receive a free Passport to Adventure gift and certificate of completion.

Last year, the program was expanded to include bike routes. More than 14,000 kids and adults picked up free journals at their local REI stores, an increase of 27 percent over 2006. Approximately 10 percent of the participants who picked up information packets returned to REI with completed journals.

In 2008, the co-op will make several program enhancements, including operational improvements for store teams to implement the annual offering.

REI Kids Passport to Adventure (participants)





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REI Gear Bank

REI's Gear Bank loans high quality gear and equipment free of charge to youth-focused nonprofit organizations that face challenges providing necessary equipment to young people for outdoor adventures. Through equipment, such as tents, backpacks, sleeping bags, sleeping pads, raingear, camping stoves and cook sets, nonprofits can host positive and memorable outdoor experiences for young people.

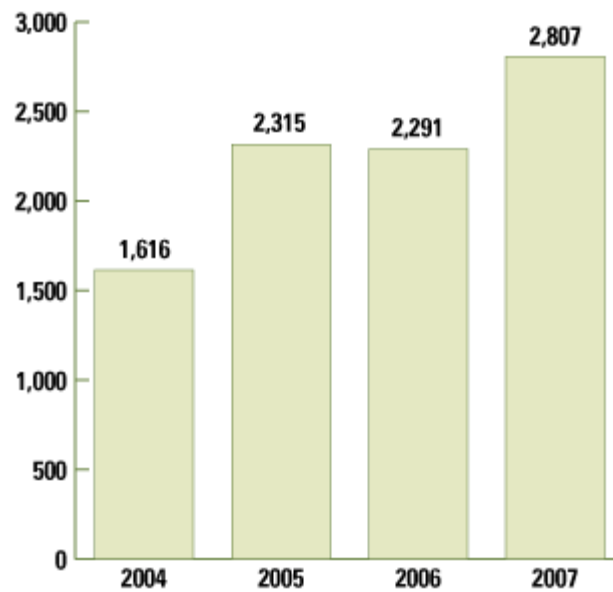
REI's Gear Bank is currently available in five cities, including:

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

Since its launch in 2002, REI Gear Bank has helped provide more than 10,600 young people access to the equipment needed to experience their first hiking or camping trip. In 2007 we set a new benchmark by helping 2,807 young adventurers experience the outdoors — up from 2,291 youth in 2006.

We are considering the feasibility of expanding Gear Bank, but recognize that the program has its challenges. For example, many REI locations do not have the storage capacity to accommodate the program, required cleaning and/or repairs can create lags in product availability, and program coordination is resource intensive. However, we continue to believe Gear Bank is an effective program for supporting nonprofits and helping youth to develop a lifelong appreciation for the outdoors.

REI Gear Bank (youth)





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Conservation

Protecting public trails and waterways ensures that these areas will be available and safe to outdoor enthusiasts and nature lovers alike for generations to come.

In this section, we provide information on some of our conservation efforts, such as store-based involvement of our employee teams, partnerships with others, and efforts directed from our headquarters in Washington State. Specifically:

[Community grants and national partnerships](#)

[Celebrating and promoting volunteerism](#)

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Community-Based Grants and National Partnerships

Similar to our recreation grants, many of the conservation grants provided to nonprofits begin with REI employee nominations. As stated earlier, more than 40 percent of the co-op's \$3.5 million giving budget was dedicated to 360 nonprofits that share our commitment to conservation and recreation.

Many of our grants support the volunteer stewardship efforts of recreational public lands and waterways. For example:

The Access Fund (Boulder, Colo.) — The co-op participated in the annual Adopt-a-Crag, helping to conserve the natural climbing environment and areas open to all forms of climbing.

American Hiking Society (Silver Spring, Md.) — Our 15-year partnership with the nonprofit resulted in nearly 1,400 miles of trail work on National Trails Day last year.

Trust for Public Land (Santa Fe, N.M.) — Help fund the construction of a water harvesting system at the Santa Fe Railyard Park and Plaza.

WILD COAST (Imperial Beach, Calif.) — Support the organization's Clean Water Border Campaign to teach underserved youth water quality health education in a region threatened by pollution from the Tijuana River along the United States and Mexico border.



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Celebrating and Promoting Volunteerism

Volunteerism through service projects and education is an emphasis of REI's community outreach. Grants provided to nonprofit organizations last year have supported/will support a wide range of service projects, committing 2,149,870 of hours of labor from 260,660 volunteers (Note: Because some projects funded last year will occur in 2008, these numbers are estimates provided by our nonprofit partners.)

Active stewardship also means getting our own hands dirty and working alongside our members and customers. Last year, REI hosted 688 volunteer projects, and recruited 32,652 volunteers and 124,284 hours of "sweat equity." Since 2000, dedicated REI volunteers scheduled more than 1,800 outdoor conservation-focused events nationwide.



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Promoting Environmental Awareness in Kids – PEAK

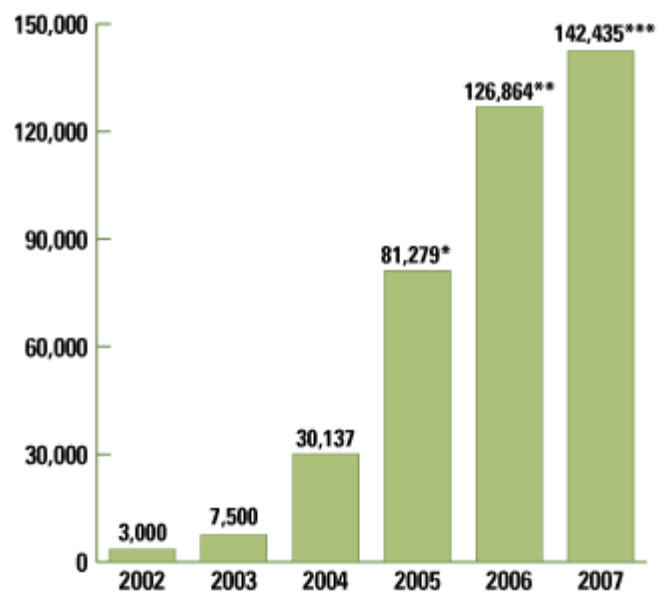
Youth who develop an early appreciation for nature will be better prepared to protect and care for the outdoors as they grow older. They will also share their experiences with their peers.

One of our most effective youth outreach efforts is an educational program called [Promoting Environmental Awareness in Kids](#) – PEAK. PEAK was developed in partnership with the Leave No Trace Center for Outdoor Ethics to inspire a love of the outdoors in young people while teaching them how to be responsible environmental stewards. The interactive program incorporates a series of hands-on and fun games, activities and lessons. REI employees and PEAK trainers visit classrooms, events and organizations across the country each year.

From its humble launch in 2002, last year the program reached 142,435 children nationwide — approximately half from our employee's volunteer efforts. PEAK has grown to eight modules for elementary school children and four for teens. Last year, all 12 modules were translated into Spanish.

In 2008 the PEAK program will be made available to all REI stores and PEAK trainers that have an interest in and ability to offer the teachings in Spanish.

REI PEAK Program (youth)



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

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

***Of this number, about 70,400 children were educated by REI employees



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The REI Foundation

As a separate nonprofit organization, The REI Foundation's mission concentrates on helping to ensure that tomorrow's outdoor enthusiasts and conservation stewards reflect the diversity of America. The work of the Foundation complements the co-op's broad efforts in community giving and programs, grassroots store outreach, advocacy and work conducted by REI's [Diversity Working Group](#).

In 2007 the Foundation awarded four grants to nonprofits in San Diego County in California, helping the organizations increase programming in ethnically diverse communities. Recipients included:

- Aquatic Adventures (Wetland Avengers program) — \$20,000
- Outdoor Outreach (Youth outreach program) — \$25,000
- WILD Coast (Clean Water Border campaign) — \$20,000
- YMCA of San Diego County (Alfresco program) — \$18,729

The Foundation continues to support natural disaster recovery efforts, and honors employees who lost their lives. In 2007, the Foundation contributed \$70,000 toward disaster relief efforts for the wildfires in Lake Tahoe, Nev.; flood relief efforts in southern California and southwest Washington.

The REI Foundation is funded primarily by REI. In 2008 the Foundation will be furthering the development of a strategic plan in support of its mission and through strategic giving and engagement.



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Advocacy for the Outdoors

REI believes that supporting the outdoors can take many forms, including ensuring that our nation's policymakers know that a strong, engaged constituency exists in support of our public lands. As a business, REI is in a unique position to merge our business interests with our company's mission to inspire, educate and outfit for a lifetime of outdoor adventure and stewardship. We pursue this work through active engagement in public policy forums and direct lobbying at the state and federal level.

In 2007 REI representatives participated in supporting the launch of the National Park Service's Centennial celebration efforts. The Centennial Challenge campaign was launched in 2006 to help prepare the National Park System for its 100th Anniversary Celebration in 2016. This included an REI executive participating in the announcement of the President's budget proposal for the Centennial initiative and involvement in a Department of Interior visioning session for the Centennial. Our work on the Centennial Challenge, and supporting budget allocations and authorizing legislation continues as a company priority in 2008.

REI also joined the Outdoor Industry Association in 2007 to lobby on behalf of important recreational funding programs. This included winning \$30 million for the state-side portion of the Land Water Conservation Fund and enhanced funding for the Bureau of Land Management's National Landscape Conservation System.

REI and three company leaders also joined the National Forum on Children and Nature. This national forum is working to identify 20 significant pilot projects that will help re-engage young people with the outdoors. Final grants will be reviewed and committed in 2008.

On the state level, REI supported two main engagements. First was the company's ongoing engagement and leadership in the Washington Wildlife and Recreation Coalition. The WWRC is a broad-based coalition of governmental agencies, nonprofits and business working together to support legislative passage of a capital budget that supports recreational lands, habitat and farms. Through the efforts of the coalition, a \$100 million budget for the WWRC was signed by the Governor for the 2007-2008 biennium.

In Oregon REI provided \$10,000 toward the public education effort for "Yes on Measure 49." The measure was designed to support planned development and the ability to protect farm land, forests and natural area.



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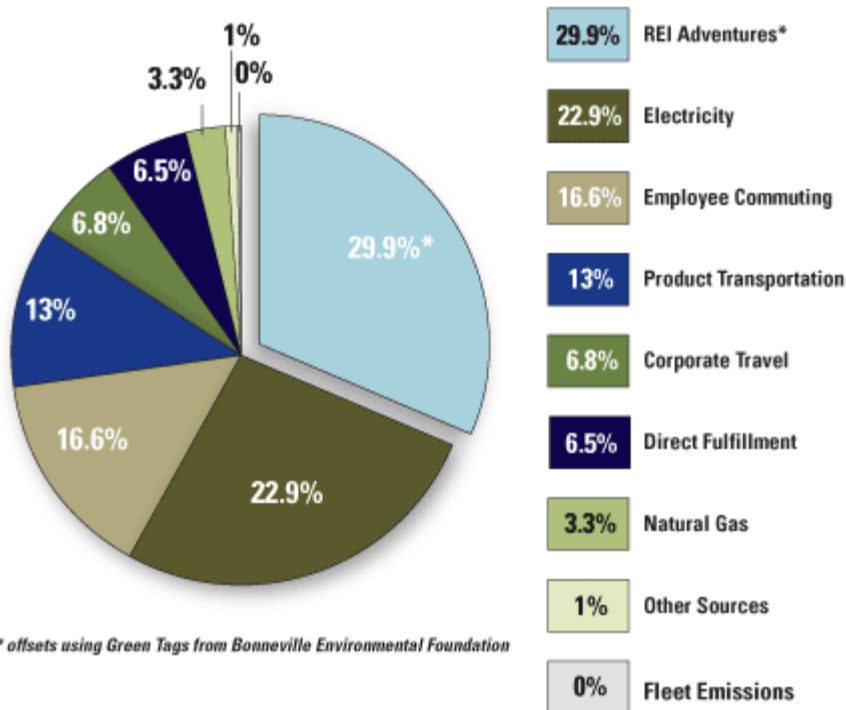
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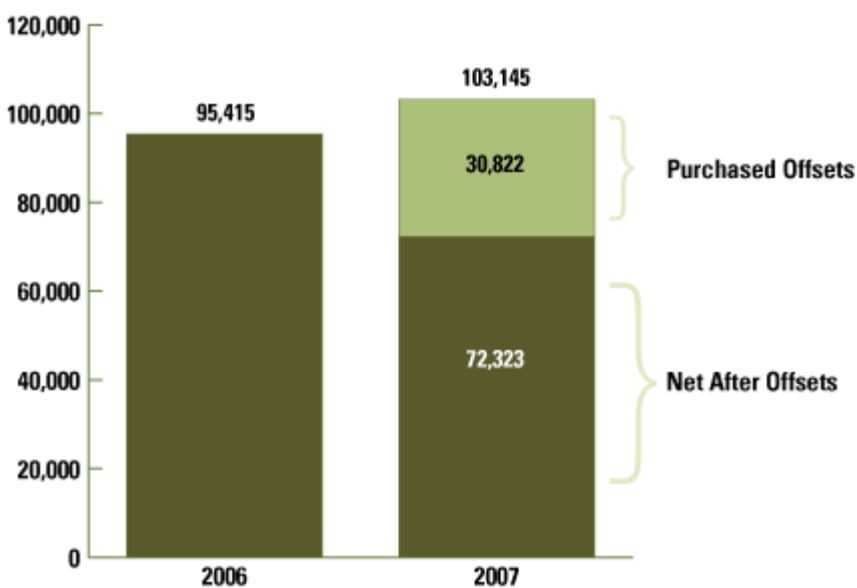
Greenhouse Gas (GHG) Emissions

To achieve our 2020 aspiration of being climate neutral, we established a 2009 goal to reduce emissions by one-third from our 2006 baseline. Achieving an absolute reduction is challenging because our planned growth would normally increase GHG emissions. The details of our inventory and actions are outlined in the graph below. Find more information on each topic by clicking on the corresponding link in the navigation bar to the left.

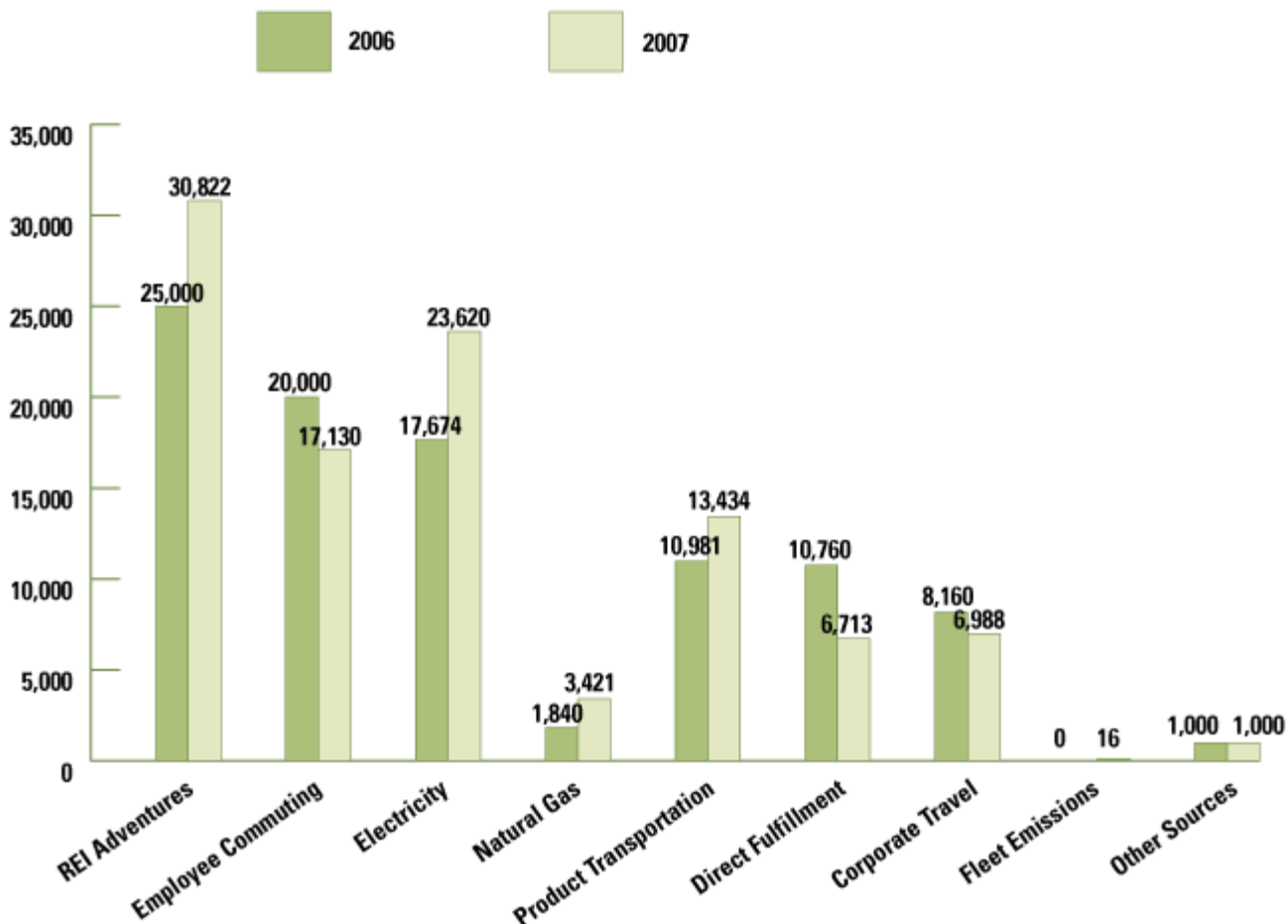
Greenhouse Gas Emissions



REI Carbon Footprint (Tons CO₂)



Greenhouse Gas Emissions (Tons CO₂)



Highlights

Through energy efficiency improvements and other efforts, we reduced the rate of increase of our GHG emissions to 8.1 percent. This is a success in itself, but only a start toward our goal.

We can state an overall reduction of our GHG impact of 24 percent in 2007 because we addressed our largest source of emissions — REI Adventures travel — through a creative offsets program. Carbon offsets are our last resort in our business operations. However, because air travel impacts our REI Adventures customers, we do not have another option at this time.

We partnered with the Bonneville Environmental Foundation to create the largest carbon neutral travel program in the country. The carbon offsets we purchase are certified by the Center for Resource Solutions.

Challenges

As our business grows, so do our GHG-generating activities. To reduce our GHG emissions our first priority is to find creative ways in which making the better environmental choice is also achieving better financial results.

These choices include setting aggressive energy efficiency targets for all new construction along with aggressive energy retrofits throughout our existing operations.

We continue to seek GHG-neutral energy sources, such as wind, biomass and solar, when they are available. Currently 20 percent of our electricity usage comes from green power purchases. We are also looking at on-site generation. Our new Boulder, Colo. store, for example, incorporates built-in photovoltaic cells as well as a solar hot water system. We plan to integrate similar technologies in additional locations.

Looking Forward

Because GHGs pose such a significant threat to the health of our planet, we will continue to consider their reduction and elimination from our operations as an essential component of our stewardship efforts. We are committed to demonstrating that reducing GHG emissions is good for business.

Methodology

To assess our GHG inventory and establish baseline numbers, we used internationally recognized methods such as the World Resources Institute protocol. We conducted our first GHG inventory in 2006 and again in 2007, and determined that our GHG emissions could be broken down into three main categories — energy, transportation and "other sources." With this knowledge, we set priorities and began working on long-term reductions.



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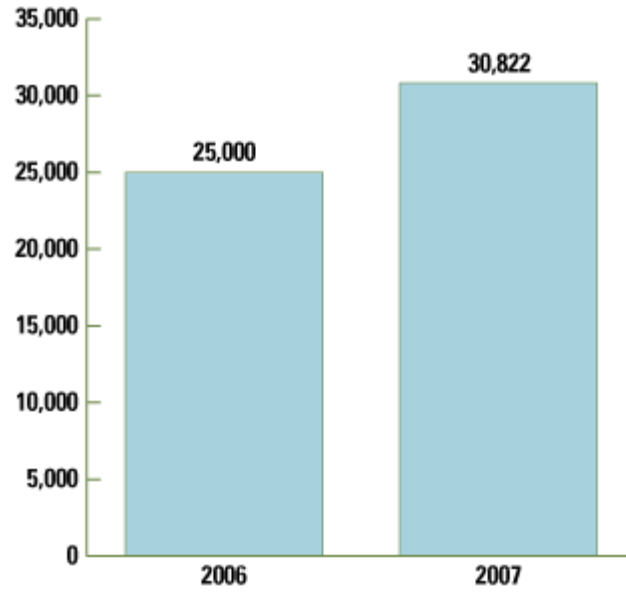
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[About REI](#) > [Stewardship](#) > [2007 Stewardship Report](#) > Climate-Neutral Travel

Climate-Neutral Travel

We believe that ecologically-sensitive travel offers many positives, such as economic opportunities for local communities and a sprit of stewardship among locals and travelers alike. However, we recognize that there are environmental consequences as well.

REI Adventures (Tons CO₂)



Highlights

To address the carbon dioxide (CO₂) generated due to REI Adventures customer travel, we've partnered with the Bonneville Environmental Foundation to create the nation's leading carbon neutral travel program. Throughout 2007 we automatically offset all GHGs generated by REI Adventures through the purchase of renewable energy credits. In 2007 we offset an estimated 30,822 tons of CO₂, which accounts for every trip taken by every REI Adventures customer, from their home airport and back again.

Challenges

In 2007 GHGs generated from travel associated with REI Adventures grew by 17.6 percent over 2006. While we were able to offset these emissions entirely we still consider them part of our overall inventory.

Looking Forward

Perhaps other solutions will eventually be found, but currently carbon offsets present the best option for addressing GHGs impacts of air, water and ground travel associated with all REI Adventures excursions.

Methodology

REI has chosen to take ownership of the climate impacts for every REI Adventures and Outdoor School customer trip. We account for the on-the-ground portion of each trip, as well as the impacts of the flights taken by REI Adventures' customers to get from their home airport to their destination and back. When a customer flies to reach their destination, the climate change impact of air travel is significantly larger than the on-the-ground impact of their travel. Calculations for GHG impact of travel are done by our partner BEF using an factors approved by the Climate Neutral Network as a means of assuring independent verification.



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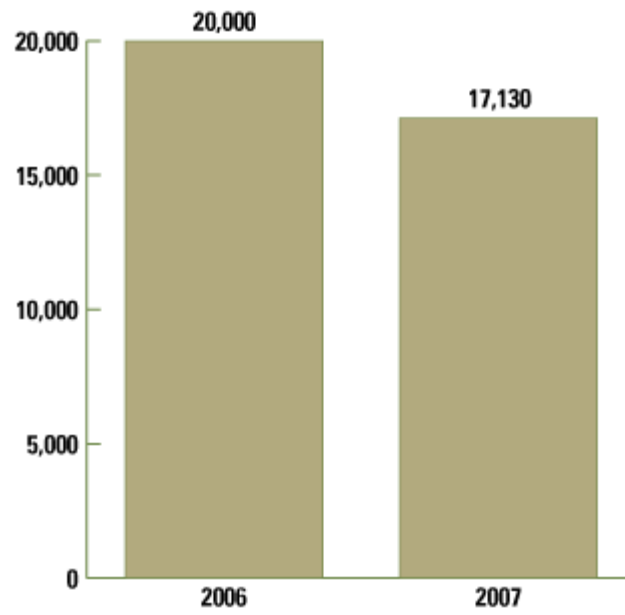
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Employee Commuting

We're focused on creating solutions to get more REI employees out of single occupancy vehicles. Getting our employees to work in carpools, van shares, by public transportation or human-powered transportation (bicycling or walking) are significant efforts to reduce GHG emissions.

REI Employee Commuting (Tons CO₂)



Highlights

Our stores, distribution centers and headquarters in Kent, Wash. — are equipped with bicycle storage and showers so that employees can make bicycling to work a viable choice. At our headquarters, we have achieved a single occupancy vehicle rate of 58 percent.

In 2007 we began a formal effort to reduce the impacts of commuting and created a full-time position to coordinate this program. We also received a grant from the Washington State Department of Transportation for nearly \$100,000 to help us test ways to reduce GHGs from commuting in our western Washington locations. Although most REI employees work in our retail stores, our efforts started in Kent because our headquarters is the largest concentration of employees in one location.

Our commuting reduction efforts in Kent include a pilot program to allow employees to adopt [flexible work schedules](#) and options such as telecommuting. We also hired an employee programs specialist that supports the development of commuting options, and other human resources efforts, such as discount programs and work/life balance efforts, to enhance employee engagement at REI.

Challenges

While on paper it appears GHGs generated through employee commuting decreased from about 20,000 tons of CO₂ in 2006 down to 17,130 tons in 2007, this is attributed to a more accurate method of counting versus significant changes in commuting methods. This means that we overestimated our GHG emissions from employee commuting in 2006. Because of factors like business growth and hiring new employees, we actually increased our greenhouse gas emissions in this category in 2007.

Looking Forward

We will better measure commuting impacts, especially in our retail stores, and introduce additional programs to reduce the barriers and increase participation in non-single occupancy vehicle commuting.

Methodology

We count the GHG emissions generated by our employees' commuting patterns because it is a significant part of our GHG impact and a challenge we need to address.

In 2007, REI used two methods to compute the CO₂ impact of employee commuting. We conducted a detailed employee survey about commuting habits at three locations: our headquarters in Kent, Wash., Seattle flagship store, and Sumner, Wash., distribution center. The survey revealed the actual miles traveled, the type of transportation (i.e., single occupancy vehicle, bus, bike or train), and the number of days employees are using each commuting method. Using modeling techniques, we estimated the commuting patterns for our other facilities based on employee location and transit opportunities, and compared this data to survey results from the three surveyed Washington locations. By doing this, we were able to estimate our companywide impacts.

In 2006 we were more conservative in our modeling, and we believe that our modeling was more accurate in 2007 from the broadening of our survey beyond our headquarters campus. This methodology improvement is why we report a reduction in our carbon impact from the 2006 level, despite our growth in the core number of employees commuting.



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Energy Use (An Overview)

We have a commitment to reduce energy consumption and to purchase and support the production of renewable energy sources.

In 2007, our total GHGs generated from energy (which includes both natural gas and electricity) equaled 27,041 tons, or an increase of five percent over 2006.

[Electricity](#)

[Natural Gas](#)



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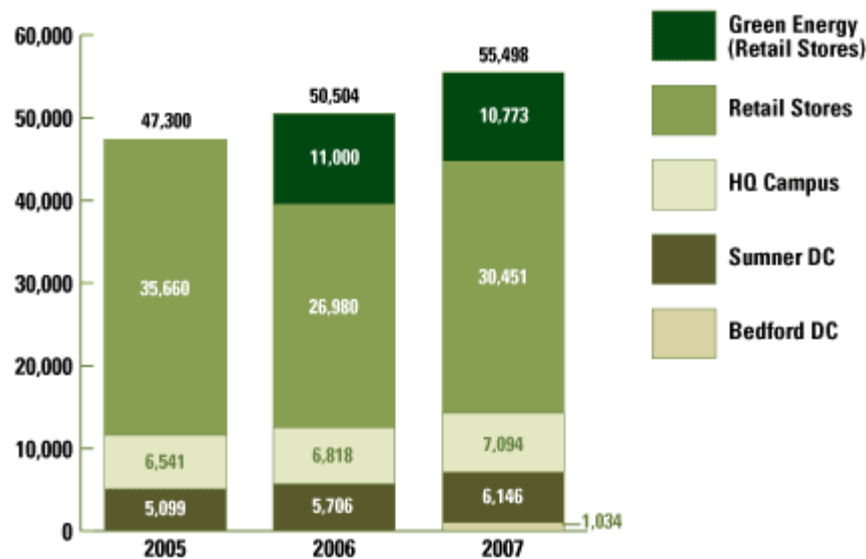
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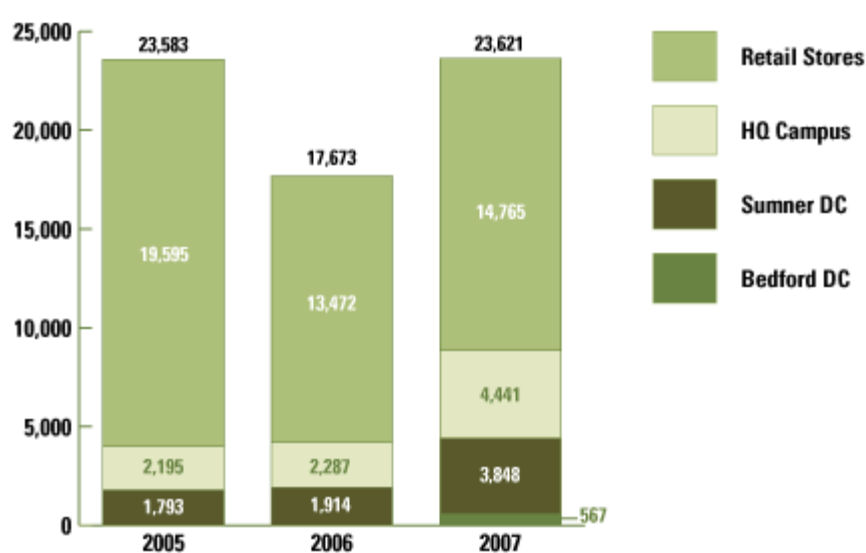
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Electricity

Electricity Usage (MwH)



Electricity Impacts (Tons CO₂)



Highlights

In 2007 we launched several new energy efficiency projects to help decrease our GHG emissions. These included the installation of solar hot water heaters at three of our stores. We also incorporated features such as building-integrated photovoltaic cells into our new Boulder, Colo. store. Our new Bedford, Penn. distribution center was designed to be more energy efficient than the federal guidelines.

At our headquarters, we hired a project manager of energy and utilities to help the co-op identify operational efficiencies in our stores and facilities. This professional also researches opportunities for green power across the country and state and federal rebate programs for renewable energy efforts.

Challenges

While we made significant strides to become more efficient, many projects were launched late in the year and did not fully impact our annual usage. Also, it was difficult to overcome the increases associated with company growth. As a result we increased megawatt usage in 2007 by approximately 10 percent over 2006. We expect to have a similar challenge in 2008 as we add more new stores, and our new distribution center will be operational throughout the entire year.

In 2006 we computed the GHG impacts of electricity usage in Washington state based on the state average. However, we felt it would be more accurate to use the actual reported GHG impacts from each utility company because the local utility providers for our distribution center and headquarters facilities are considerably more dependent on fossil fuels than the rest of the Northwest. This change doubled the GHG emissions from these facilities.

In addition, we can not find enough qualified renewable energy offerings from local utilities to fulfill our current demands. We are working with utility companies to develop more options and we will make additional investments in on-site generation.

- [Green Power Purchases Requirements](#)
- [List of REI Stores powered by renewable energy](#)

Methodology

REI's electricity consumption was calculated based on the kilowatt hours reported on electricity bills for our stores, headquarters and distribution centers. We used the [EPA Power Profiler](#), and the location and energy use of each store and facility to compute the CO₂ emissions.

A large percentage of our usage is in Washington State, and there are significant differences between utilities' generation mixes in the Northwest. As a result, we reported CO₂ emissions for these facilities based on the CO₂ emissions per kilowatt-hour for each utility as reported to the Washington State Department of Community Trade and Economic Development (CTED) in 2005.



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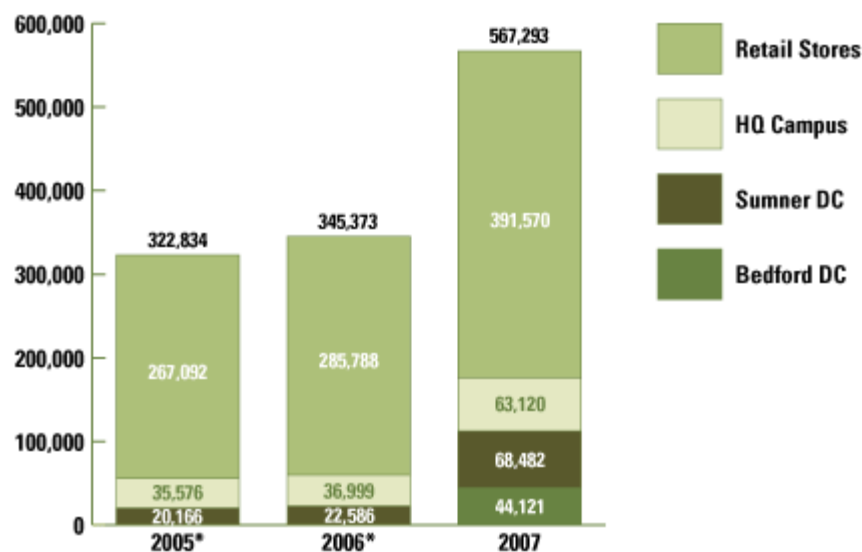
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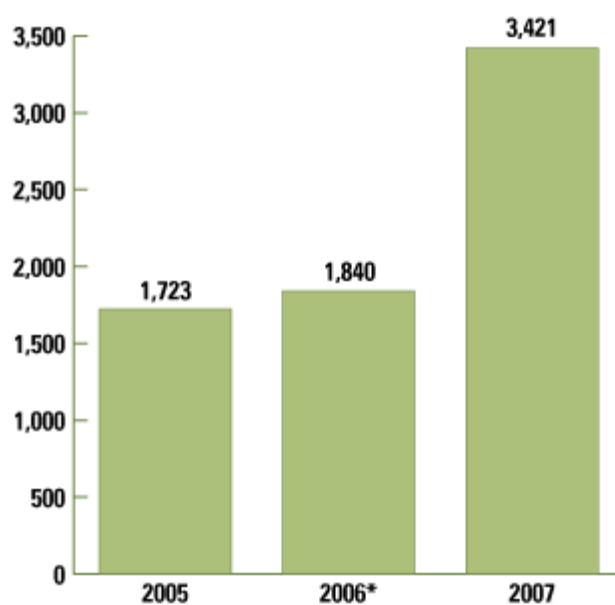
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Natural Gas

Natural Gas Usage (Therms)



Natural Gas (Tons CO₂)



Highlights

In 2007 natural gas accounted for three percent of our greenhouse gas emissions. As we look for ways to increase energy efficiency throughout our operations, we will continue to target ways to reduce our natural gas consumption.

Challenges

Due to growth in our operations, including our new store openings, the opening of our Bedford, Penn. distribution center, and an expansion at our Sumner, Wash. distribution center, our use of natural gas accounted for 3,421 tons of our GHG emissions in 2007. In 2005 and 2006 we underreported natural gas usage due to a data error, which makes the 2007 usage appear to have grown by a high rate.

Looking Forward

All of REI's new buildings will be built to meet aggressive energy efficiency targets, which will help slow the growth of our energy usage. We will also continue an aggressive energy efficiency program for existing facilities and look toward on-site generation with renewable energy to curb our increases in energy consumption.

Methodology

REI's natural gas consumption was calculated based on the quantity of natural gas (therms) reported on the natural gas bills for our locations. We used a standard emissions factor to compute the CO₂ impact.



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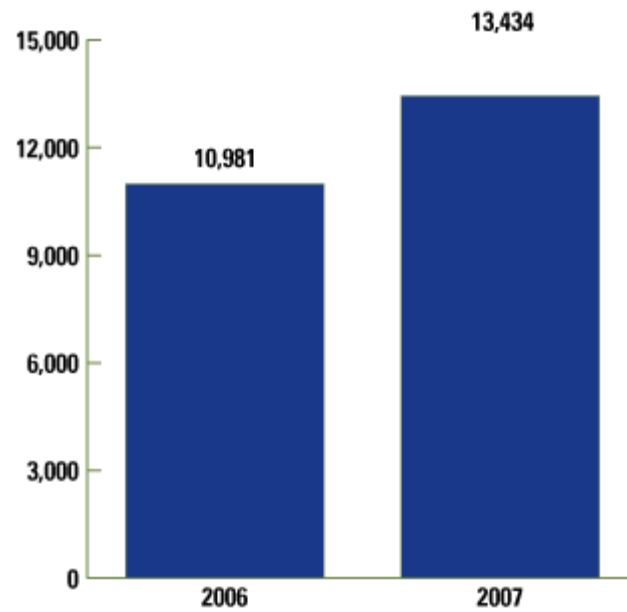
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Product Transportation

The transportation of goods from the location we purchase them, to our distribution centers and on to stores represented about 13% of our total GHG emissions. We also count the impacts of shipping goods directly to customers who order via our catalog or through REI.com and REI-OUTLET.com and we report that as "Direct Fulfillment".

Product Transportation (Tons CO₂)



Highlights

In 2007 product transportation accounted for 13 percent of our greenhouse gas emissions, or a total of 13,434 tons. Over the course of the year we began implementing strategies to reduce these impacts. Our new eastern region distribution center will help lessen impacts due to more efficient delivery to east coast stores and customers residing east of the Mississippi River. However, some of the advantage is countered by transporting the products to Bedford.

Challenges

Shipping products from far away distances has impacts and the method of transportation affects efficiency. For example, planning ahead and not sending products by air but by cargo ship has less GHG emissions. As we grow we will need to keep pressure on efficient transportation.

Looking Forward

We will work with logistics suppliers to measure individual company performance and ask them to compete on their GHG emissions performance and on traditional metrics, such as on-time delivery. This is a new area for many suppliers; however we have been pleased with the interest from the shipping industry to do their part.

Methodology

To create our GHG inventory, we take ownership of the carbon impacts for the shipment of goods that we own, or from the point where we schedule and control the transportation, all the way through our distribution centers and on to stores. The impacts of shipments directly to customers for internet or catalog orders are reported in the "Direct Fulfillment" section.

This section reports on REI emissions in three areas: goods inbound (from vendors or factories to our distribution centers or stores); good outbound (from our Distribution centers to stores) and intra-company transfers (shipments from one store to another or back to a distribution center).

Goods Inbound

This category has three sub-sections:

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

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" freight shipments consistent with our method in inter-company transfers.

Vendor shipments — Our product vendors also deliver some product directly to stores and this occurs via parcel post and "less than truckload" freight shipments. The CO₂ impacts have been computed based on total ton-miles of freight multiplied by the average impacts of parcels or average impact of less than truckload freight.

Good Outbound (distribution centers to stores)

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

Intra-company Transfers

This category also includes moving goods between stores and shipments back to our distribution centers from stores. This category is dominated by "less-than-truckload" freight transportation and common carrier freight services. We use the same ton-mile methodology and CO₂ factors as above.



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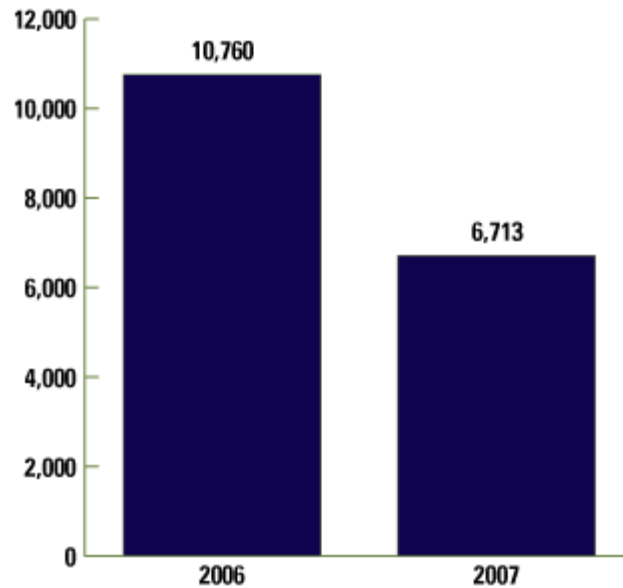
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Direct Fulfillment

This category counts shipping products directly to our customers from our distribution centers, in response to orders from telephone and our web sites.

Direct Fulfillment (Tons CO₂)



Highlights

At 11.3 percent in 2006, shipping products directly to our customers accounted for a disproportionately large percentage of our total greenhouse gas emissions. This is due mainly to requests for next day shipping via air transportation. Our best solution to reduce greenhouse gas emissions generated via flights is our retail store pick-up program. Customers that purchase items from REI.com may opt to pick up their items at any store, and not incur any shipping charges. We can then transport the item efficiently in our normal truck delivery and pass the savings on to the customer. GHG emissions are then counted as part of our store delivery in the previous section.

Challenges

While options such as our retail store pick-up program offer a lower cost, lower carbon way for our customers to order products from REI, we still receive many next day delivery orders from customers, especially around the holidays.

Direct Fulfillment CO₂ Reduction

While our report shows a reduction from 2006, we are concerned that this could be a computational anomaly rather than a real reduction. We will be working with transportation providers to establish more reliable metrics in 2008.

Looking Forward

We are considering ways to inform our customers of the greenhouse gas emissions generated by different shipping options in order to help them plan their orders with the least amount of CO₂ impact.

Methodology

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

For ground shipments, we assume a delivery directly from our fulfillment center in Sumner, Wash., to the customer. While this neglects the possible shipment routes to and from the carrier's logistical system, we think it is a fair representation of the distance traveled. To simplify calculations, we have assumed the average shipping distance is 1342 miles (delivery from Sumner, Wash. to Denver). We computed the total CO₂ impact based on our average package weight shipped for the average distance and we used the same CO₂ factor computed for truck delivery. In 2008 we will have the ability to calculate the actual mileage for each package from zip code to zip code.

For shipments by air, we neglected any ground component because the air impacts are so large that it makes the ground portion negligible. To account for the CO₂ per air mile, we used the passenger air travel factor developed by the Climate Neutral Network. However, we adjusted the impact for the average weight of a package compared to a person. This may overstate the impact because cargo transportation is more efficient in terms of pounds per aircraft, but it has the benefit of consistency with our other reported metrics. As our carbon reporting evolves, we continue to seek best practices in carbon footprinting and its methodologies and emissions factors.



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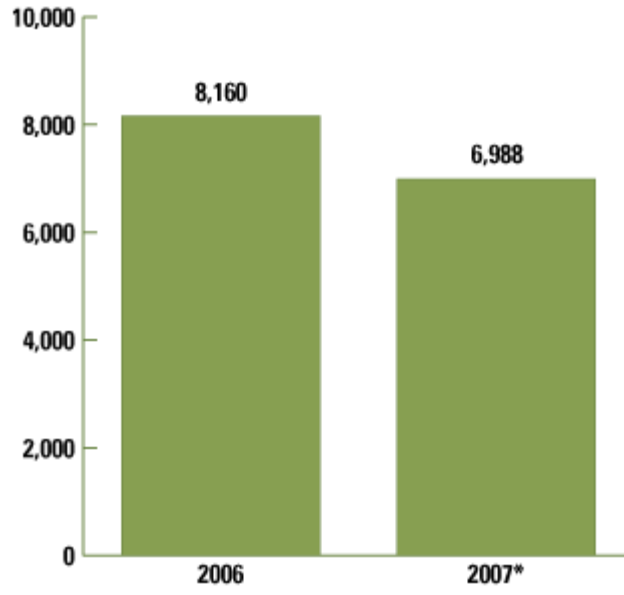
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Corporate Travel

Getting our employees to meetings and other work-related events often requires air travel, which contributes to our overall carbon footprint. A significant percentage of our full- and part-time employees nationwide commute back and forth to work in [single occupancy vehicles](#).

Corporate Travel (Tons CO₂)



*Includes impact of air miles and rental car miles

Highlights

In 2007 we switched to a new corporate travel vendor that is able to report greenhouse gas (GHG) emissions more accurately. This will allow us to better understand the impact corporate travel has on our carbon footprint.

Challenges

While it appears that our GHG emissions associated with corporate travel went down in 2007, we actually reported too conservative (too high) a number in 2006. The result is that our GHG emissions for corporate travel in 2007 are higher than what we think they were for 2006.

Looking Forward

While corporate travel accounted for 6,988 tons of our GHG emissions in 2007, we understand that reducing business travel, even as our business grows, is both possible and desirable.

Methodology

To determine the GHG emissions for corporate travel in 2007, we used our travel booking software and other internal data sources to compute the total miles flown for all employees, which were just under 10 million air-miles. We then used a calculator for CO₂ per passenger mile based on the computations published by the Climate Neutral Network.

We also used the same internal data sources to calculate the number of rental car miles driven by our employees, and we used a fleet-average estimate to calculate the number of gallons of gasoline burned and its associated carbon impact.



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Miscellaneous Greenhouse Gas Emissions

There are other sources that are too small to be tracked, but collectively may add up. We estimated these emissions to be 1 percent of our total. Examples include the occasional leak of chlorofluorocarbons (CFCs) from air conditioning units during maintenance or the release of a volatile organic component during some maintenance operation in facilities.



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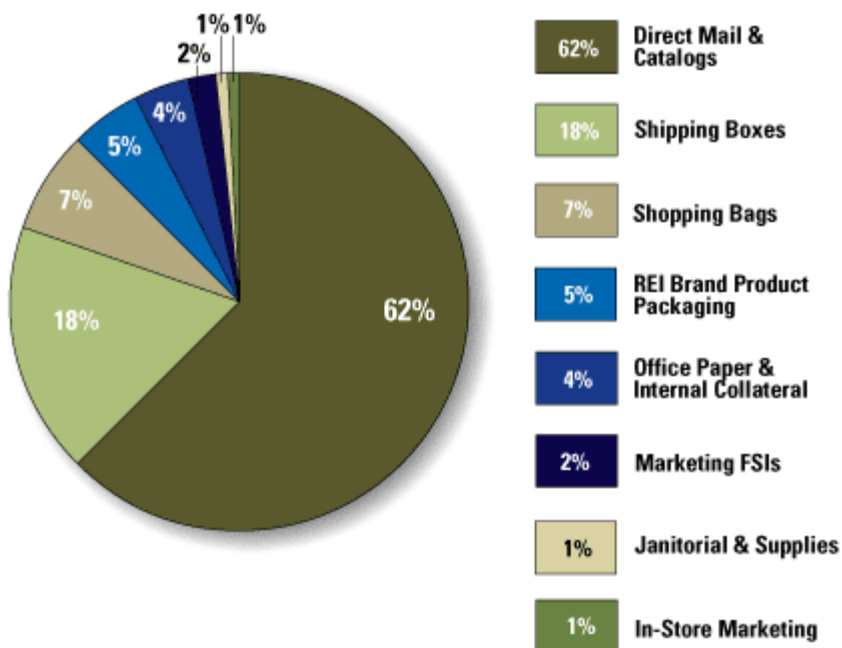
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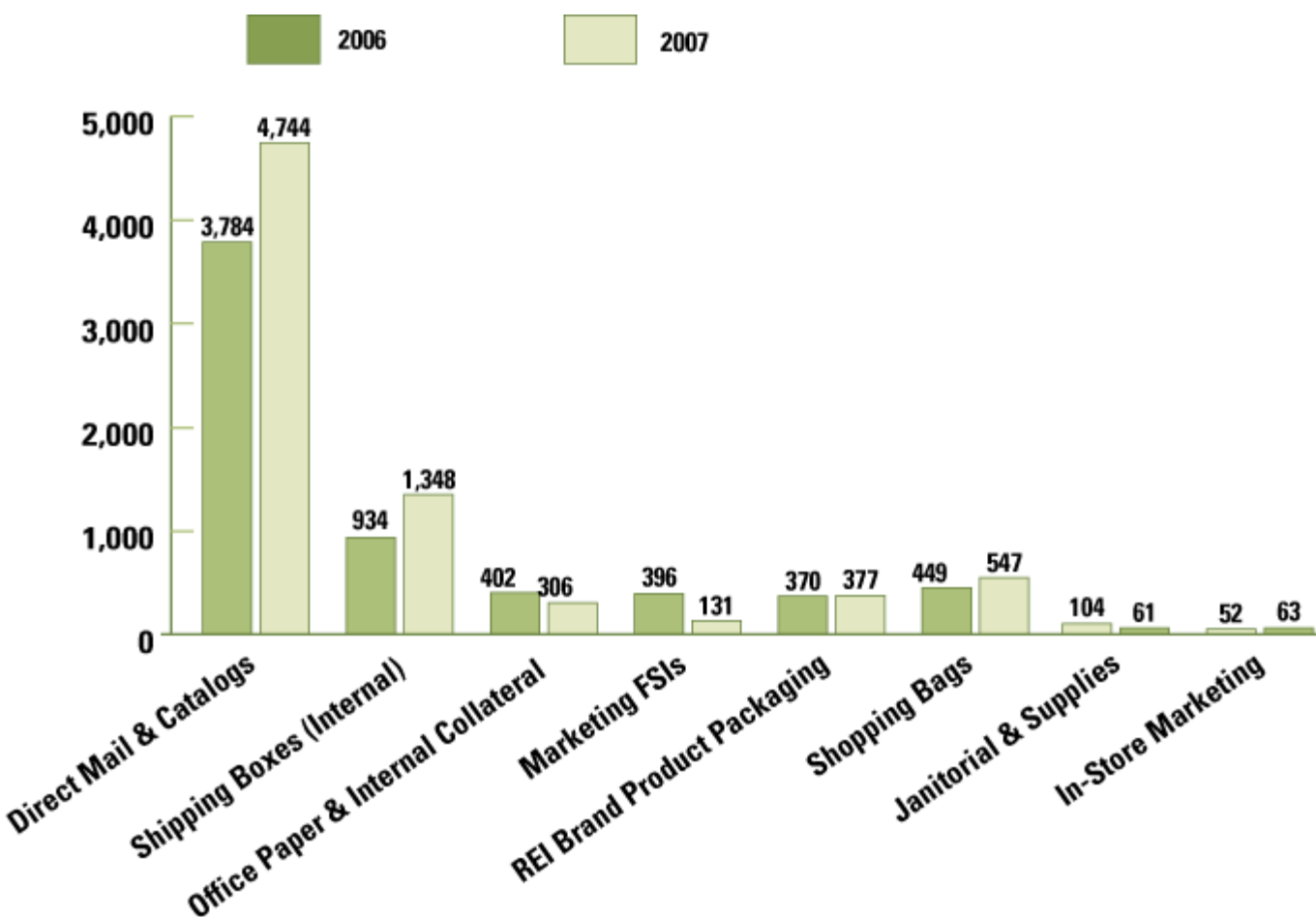
Paper Usage

Our aspiration is to align our paper purchasing with our stewardship ethic, and work with our paper suppliers and the industry to help accelerate the adoption of sustainable forestry practices. In 2006 we worked with a stakeholder group representing the paper industry, non-profits and others to develop our responsible [paper purchasing policy and action plan](#). The program has six parts and the report shows our annual results in each section.

2007 Estimated Paper Usage



Paper Usage (Tons)



Highlights

Our most important goal is to know the fiber sources of all the paper we purchase. Although it is difficult, we attempt to follow the "chain of custody" from the forest to our point of purchase. In 2007 we reduced the "unknown" from 20 percent in 2006 to only 10.8 percent. Our best assurance that the chain of custody is trustworthy is to purchase paper products certified by the Forest Stewardship Council (FSC)®. This percentage increased to 16.8 percent.

Challenges

Our total tonnage of paper purchased increased by 16.7 percent in 2007 compared to 2006. Often renewable paper can be a better materials choice so increased use is not necessarily a downside. However, we want to understand what is driving the increase and be confident we're making the best choices.

One increase came from the need to purchase a large quantity of shipping boxes to stock our new distribution center. However, our largest increase came from using more paper in our direct mail and catalog operations.

Looking Forward

As we look ahead, we plan to increase our purchase of responsibly harvested and processed paper. This means that we will work closely with our suppliers to assure the paper's chain of custody and the paper's source.

We are also working closely with the Paper Working Group, organized by the non-profit organization Metafore as an early adopter of the Environmental Paper Assessment Tool, or EPAT, which helps businesses like ours make more environmentally responsible choices when it comes to purchasing paper.

A: Paper efficiency metrics

The first section of our paper policy requires that we track the use of paper relative to our annual sales growth. Our objective is to ensure that company decision makers are accountable for making conscious choices about our use of paper. While we believe that paper from well-managed sources is a renewable natural resource and is therefore often a better choice than a non-renewable material, we still need to be intentional about our decisions.

One of the most important ways we address this issue is in the management of our direct mail efforts. We send members and customer catalogs and other printed materials - such as our annual member dividend statement. We actively minimize unwanted mailings, including efforts to eliminate list duplication, incorrect addresses, etc. We are also a participant with Catalog Choice, which is endorsed by the National Wildlife Federation and Natural Resources Defense Council. The free consumer service helps minimize unwanted mailings.

Other efforts include testing innovative lighter weight paper options that deliver the same look, feel and print efficiency as heavier paper, but actually weigh less due to the way the paper is made. In addition to aligning with our commitment to efficient paper use, these efforts directly drive financial performance because of postage and production costs.

Paper Efficiency

	2004	2005	2006	2007
Annual Sales (Millions)	\$887	\$1,022	\$1,182	\$1,329
Total Paper (Tons)			6,491	7,577
Total Paper Efficiency (Annual Sales / Tons)			0.182	0.175
Total Virgin Fiber (Tons)			4,828	5,974
Virgin Fiber Efficiency (Annual Sales / Tons)			0.245	0.222
Direct Mail (Tons)	3,508	3,769	3,785	4,744
Direct Mail Efficiency (Annual Sales / Tons)	0.250	0.270	0.310	0.280

B. Chain of Custody

The first step in securing quality sources of fiber is to work with suppliers that can track the origin of the fiber back to the forest. This is difficult because the paper industry considers paper fiber and pulp as commodities. As a result, they are frequently blended together. Having a clear "chain of custody" is a new requirement for many industry participants. FSC certification assures that not only is the chain of custody known, but it is audited and verified by a third party.

Chain of Custody Goals

	Est. 2005	2006	2007 Goal	2007 Actual	2008 Goal	2009 Goal
Unknown	29.0%	20.0%	20.0%	10.8%	10.0%	< 2%
Known	71.0%	79.0%	77.0%	72.4%	80.0%	83.0%
Certified	0.0%	< 1%	3.0%	16.8%	10.0%	15.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

C: Sources of Fiber

Once the chain of custody can be established, we can use our purchasing preference to avoid unsustainable harvesting and sources. It may seem counterintuitive at first, but learning that fiber comes from an unwanted source can be a good step. Having the transparency and the trust of our suppliers to identify possibly unwanted fiber is a necessary part of working with the supply chain to support changes.

Source of Fiber Goals

	Est. 2005	2006	2007 Goal	2007 Actual	2008 Goal	2009 Goal
Unknown	16.0%	19.8%	12.0%	11.5%	7.0%	< 2%
Undesirable		1.8%	4.0%	5.6%	8.0%	< 5%
Recycled	20.0%	25.6%	22.0%	21.2%	27.0%	30.0%
Acceptable	64.0%	52.8%	57.0%	50.0%	48.0%	48.0%
Certified		0.0%	5.0%	11.7%	10.0%	15.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

D: Environmental Performance

Beyond the methods and locations of harvesting, the paper, pulp, printing and processing industries can represent many environmental challenges. In order to encourage beyond compliance performance within the supply chain, we are partnering with the Paper Working Group and Metafore as an early adopter for the Environmentally Preferred Paper Assessment (EPAT) tool. In 2007 we worked with EPAT 1.0 and provided feedback regarding improvements. In 2008 we will deploy EPAT 2.0.

E: Commitment to Recycling

As part of our waste reduction efforts and our commitment to sustainable paper, we aspire to recycle at least 75 percent of all the paper used in our operations by 2009. In 2007 we started to develop methods of capturing data. Currently we recover about 80 percent of all waste (by weight) with a majority of our recycling being corrugated cardboard. In the coming year we hope to have better metrics in place to report more clearly on this goal.

F: Reporting: Our paper policy requires that we make public an annual report with the above sections.

Methodology

Defining Chain of Custody

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

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

Certified — The chain of custody will be deemed "certified" if each party in the supply chain has received certification by

FSC or a system deemed equivalent.

Definitions:

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

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

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



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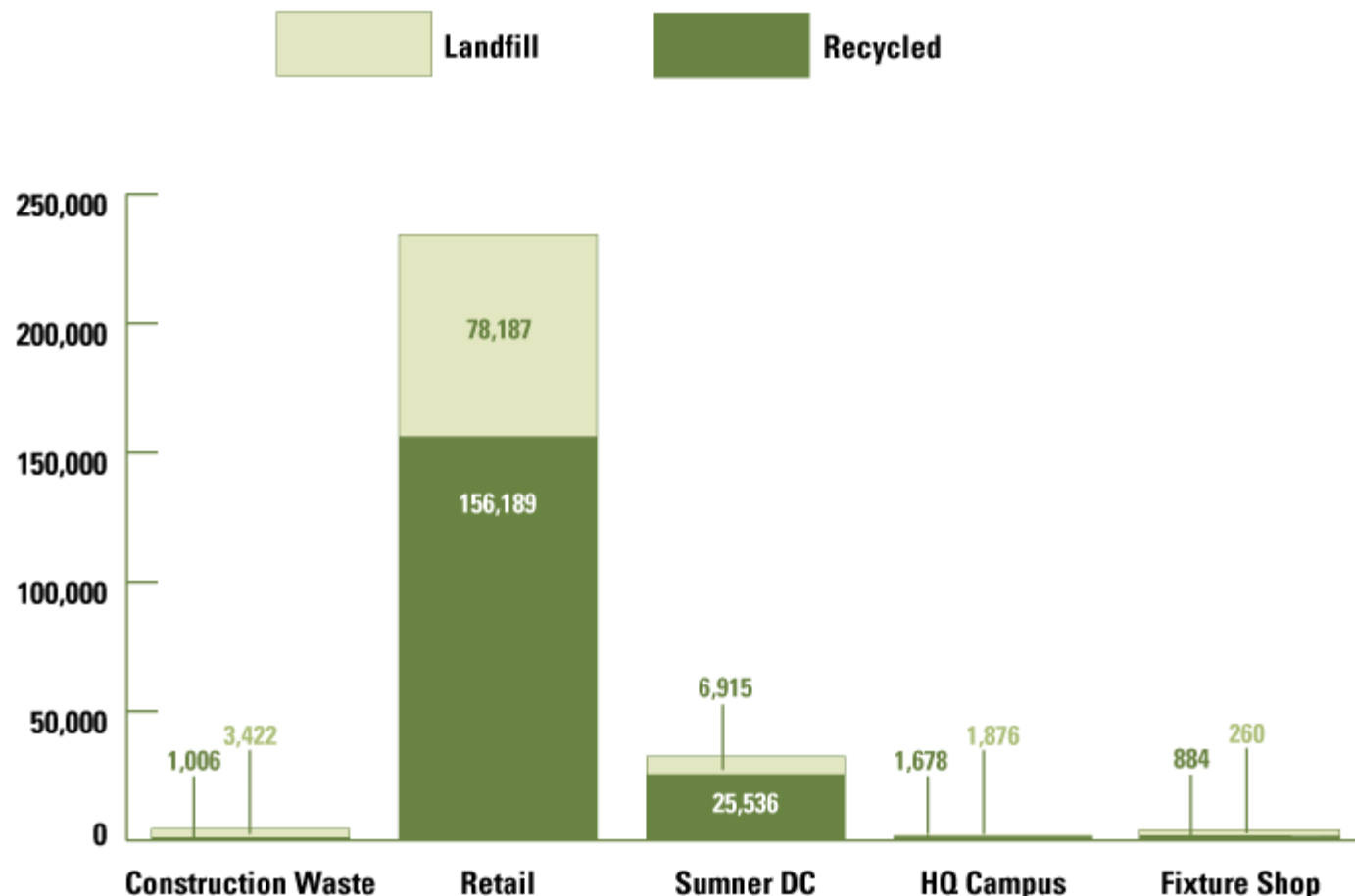
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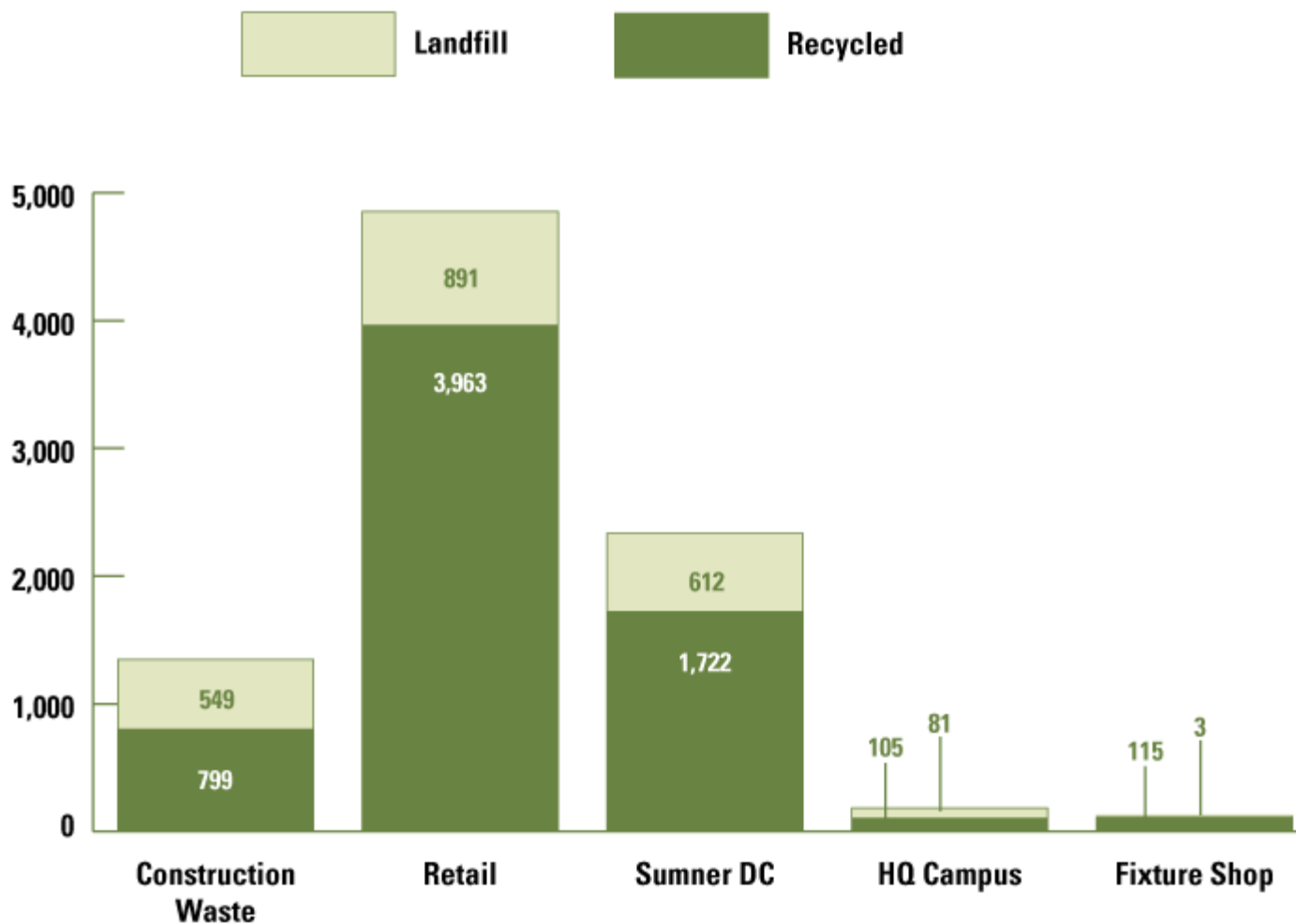
Waste and Recycling

We aspire to become a zero waste-to-landfill business by 2020. Imagine literally having no garbage dumpsters at any REI facility. We recognize that this means we must continue to take very aggressive actions on waste reduction and recycling in order to meet our goal.

Estimated Waste Volume (Cubic Yards)



Estimated Waste Weight (Tons)



Waste Summary

	Tons			Yards			
	Recycled	Landfill	Percent Recycled	Recycled	Landfill	Percent Recycled	
Construction Waste	799	549	59%	Construction Waste	1,006	3,422	23%
Retail	3,963	891	82%	Retail	156,189	78,187	67%
Sumner DC	1,722	612	74%	Sumner DC	25,536	6,915	79%
HQ Campus	105	81	56%	HQ Campus	1,678	1,876	47%
Fixture Shop	115	3	97%	Fixture Shop	884	260	77%
Overall Estimate	6,703	2,136	76%	Overall Estimate	185,292	90,659	67%

Highlights

Cardboard is the main component of our waste stream, and comes mostly from our retail operations and distribution centers. Nearly all cardboard waste from these sources is recycled, along with a high percentage of the other wastes generated at these facilities.

In 2007 we launched commercial-scale composting for food waste in our headquarters café in Kent, Wash. We hope to learn from this program because we believe in future years composting will be a key tool to achieve our zero-waste to landfill goal. We also put in place recycling programs at our stores and facilities to divert hazardous materials such as fluorescent light tubes and batteries out of our waste and into recycling.

Last year we also launched a plan to replace chemical solvents (used to clean bicycle parts) in all of our stores with machines that use water and sonic waves. This technology will reduce our employees' exposure to hazardous materials and eliminate approximately 4,000 gallons of hazardous material from our bike shops. This change will take place beginning in 2008.

Getting even further into our waste stream, we partner with Alchemy Bags to recycle used inner tubes from our bike shops. Alchemy Bags uses the inner tubes to create highly stylized messenger bags, which are sold in our stores.

Taking into consideration our entire waste stream sources combined — wooden pallets, paper, cans and bottles, and other miscellaneous waste streams — and those described above, we are actively recycling approximately 76 percent of our waste by weight, or 67 percent by volume. Our aggressive efforts in recycling today will help tremendously in our goal to become a zero waste-to-landfill organization by 2020.

Challenges

While we continue to divert a tremendous amount of our waste from the landfill and into recycling, a lot of work remains to meet our zero waste-to-landfill goal by 2020. For example, recycling options and food waste composting programs are limited in the communities where we do business.

Further, we count all construction waste associated with our building efforts as part of our waste stream, versus the contractor's waste stream. This adds to our overall volume of waste generated and presents additional challenges when it comes to identifying recycling programs.

To address these challenges we will work with other businesses in our markets to push for and support recycling programs. We see this as an opportunity to help create environmental improvements in the markets we serve.

Looking Forward

We have hired a packaging engineer within in our REI-brand team and are working to minimize the amount of packaging needed to transport and display our products. We are taking steps to bring the standards for product packaging in line with our [paper standards](#) described above.

Methodology

In 2007 we gathered data for our entire operations on the amount of waste we produce, the percentage we recycled, and what materials make up our waste stream. This expanded our scope from our 2006 reporting and expanded our baseline to measure progress in the coming years.

Our retail data was compiled through a collaborative research project with graduate students in sustainable business from the Bainbridge Graduate Institute. In 2008 we plan to develop further systemic methods to measure and reduce our waste.



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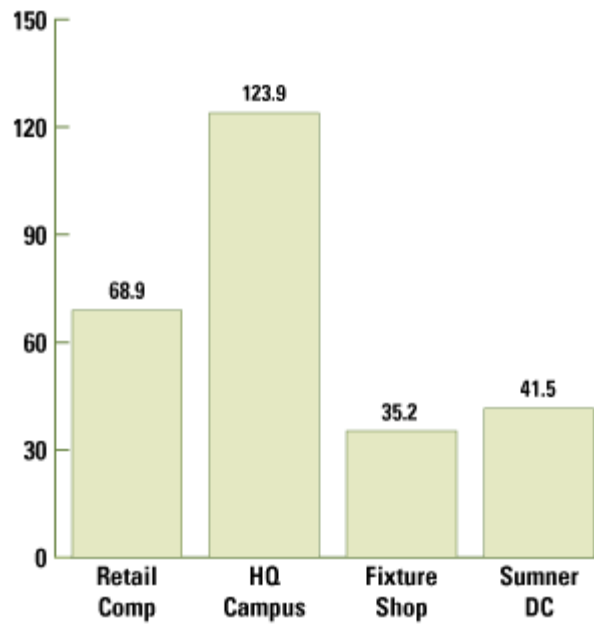
Green Building

One of our most significant environmental impacts of our business is our buildings. They enable us to provide excellent employee and customer experiences, and serve as one of our biggest opportunities to connect with communities and advance the core purpose of the co-op. However, the operation of our buildings also impacts our efforts to reduce our overall energy use.

Our short-term goal is ensure that by 2009 all new locations would meet or exceed U.S. Green Building Council's LEED® -certified standards. In addition, we want to make REI's buildings achieve the lowest energy intensity in their class. We also intend to apply for LEED certification on at least one typical store per year. While we will not likely pursue certification for each new store, we will use the standards to have reasonable confidence our buildings take their environmental impact into consideration. Our reasons for building green are to:

- Enhance the customer and employee experience
- Reduce operating costs
- Reduce environmental impacts
- Align our buildings with our values and the REI brand

Energy Density (KBtu/sq. ft.)



Highlights

In 2007 we opened two new "green" facilities, our [Boulder, Colo. prototype retail store](#) and our Bedford, Penn. distribution center. Both projects were built to achieve LEED-Silver certification. Our Bedford distribution center received its LEED-New Construction Silver certification in January 2008, and our Boulder store's certification is in process as of April 2008.

At 525,000 square feet, our new Bedford facility is one of the very few distribution centers in the country to receive LEED certification. It incorporates energy efficiency concepts such as more than 360 skylights and windows, which bring in the daylight and greatly decrease energy demand.

As our first prototype green store, the Boulder store also served as our participation in the U.S. Green Building Council's LEED for Retail pilot project, which has the goal of creating certification procedures that are less costly and time intensive for the retail construction industry. With features such as high efficiency systems and rapidly renewable building materials, our Boulder store includes our first built-in photovoltaic solar panels. These panels allow the store to self-generate a percentage of its power directly from the sun.

Our Boulder store also received *Chain Store Age's* 2007 Retail Store of the Year award for Environmental Sustainability.

As we continue to grow, we will pursue innovative ways to decrease the environmental footprint associated with our facilities. In 2007 we measured the energy density throughout all of our operations. Energy density refers to electricity and natural gas usage combined in each of our buildings divided by that building's square footage. This allows us to compare energy efficiency in all of our buildings and understand where our operations are less energy efficient.

Challenges

While there has been significant progress in the green building industry since REI's first efforts in the mid-1990s, we continue to face challenges. Many issues come from trying to do things differently in a very mature construction industry. For example, there are issues in the cost and availability of environmentally-preferred construction materials. In addition, it can be challenging to separate supplier's environmental claims from real technical innovation. In our retail construction, we have much less risk tolerance than building owners in other categories, and therefore it can present challenges to store opening timelines or performance on new technologies or unproven features. Finally, the environmental performance of our stores can be controlled by developers, construction contractors, and local building codes. All of these factors bring different levels of experience and support for our green building objectives.

Looking Forward

In keeping with our goal to use as much renewable, sustainable energy as possible and solar energy in particular, we will begin a significant program to install solar electric and solar hot water systems on a select number of our store roofs.

We will open our second prototype store that incorporates an innovative two-level design in Round Rock, Texas in 2008.

In order to test our standard building process, we plan to apply for LEED certification at our Lincoln Park, Ill. (Chicago) store which will open in the fall of 2008. This LEED certification will help us estimate how green our standard store design actually is.

Methodology

Energy density calculates the total energy use for a facility by converting natural gas usage (therms) and electricity usage (kilowatt-hours) into a single unit (kilo-btus). After this energy input is calculated, we divide by the square footage of the facility to get the annualized energy density (kilo-btus per square foot). We exclude new stores and new facilities, such as our Bedford distribution center, in their first year to avoid extrapolation errors based on partial-year data.



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Product Stewardship

The gear and apparel we design and sell to help our members have a great outdoor recreation experience can contribute to environmental and social harms. As with the operational side of our business, our desire is to identify the negative consequences of products. Through creativity and innovation, we will begin to not only reduce the negatives, but eventually craft solutions which have net benefits for the planet.

We are just beginning this process. We understand that looking at the full lifecycle of products and working with others to make changes requires a real investment. It also requires collaboration with companies across our industry and the greater supply chain. We have learned much from companies that have been working in this area before us and we hope to share our learnings in order to help our industry and others make progress.

Our first step has been to the work of establishing a vision and definition for "product stewardship" at REI and start trying to measure product impacts.

Highlights

In 2007 we introduced REI's [ecoSensitive](#) label with more than 40 branded apparel styles, identifying select items that have improved environmental performance compared to their conventional counterparts. We started with an emphasis on fabrics with a high percentage of renewable, recycled, and/or organic fibers — organic cotton, bamboo, hemp, organic wool, post-industrial recycled polyester, recycled polyethylene terephthalate (PET) plastic and polylactic acid (PLA).

We also worked with a group of colleagues in the Outdoor Industry Association to launch the OIA Eco-Index working group. With nearly 70 brands, the group is sharing collective knowledge and developing a common framework to measure, report and ultimately improve on the environmental impact of outdoor gear and clothing.

Challenges

The first challenge is reliable metrics for environmental impacts. From chemical use, to water and energy, to end-of-life impacts, it is difficult to quantify and qualify data and begin the process of sharing this information up and down the supply chain. Sourcing products and materials to meet our evolving ecoSensitive standards also presents a challenge. Lastly, communicating effectively with members and customers about the complexity of product impacts, while offering authentic information in an approachable non-expert manner while not inadvertently exaggerating claims is difficult.

Looking Forward

In 2008 we will define our ecoSensitive program based on the following standards:

- All ecoSensitive products will contain either 50 percent recycled or 85 percent rapidly renewable, minimally processed textiles or 95 percent organic cotton. A product can contain a combination of these three adding up to 95 percent of the product by weight.
- Any cotton used in our ecoSensitive products must be organic cotton.
- No ecoSensitive products can contain materials listed on the Restricted Substances List, which is a list of chemicals and materials we consider unsustainable.
- No polyvinyl chloride (PVC) can be used in our ecoSensitive products.

Our future goals also include assuring that all of our products meet our vendor [fair labor program standards](#). We have begun to roll out this effort to ensure all of our vendors meet these standards by 2009.



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Workplace

Our dynamic workplace attracts and retains motivated, entrepreneurial and highly talented employees who play a role in the co-op's vision, and seek to make a difference in their communities.

We work to maintain a strong culture that instills a sense of ownership and employee pride. We offer one of the most [competitive benefits programs](#) nationwide, including healthcare coverage to full- and part-time employees (and their spouses, life partners and children), a generously funded retirement plan, incentive pay, and vacation and sick benefits regardless of the number of hours worked each month. Our total compensation package is designed to support employees as they progress through their professional careers at REI. We have also been piloting a [customized work environment](#) of flexible work options at our headquarters.

We endeavor to grow a [diverse employee team and foster an inclusive work environment](#) that brings out the best in every employee. A diverse workforce will also better prepare REI to be a resource in the communities where we have a presence. To do so, we need to [recruit and retain employees](#) who are representative of our communities. To complement these efforts, we are also working to improve the diversity portrayed in our marketing efforts, and better understand and serve the human-powered outdoor recreation needs of communities of color across the country.

While there are improvements to be made, we are encouraged by our current success: our [retention rate](#) is 70 percent - significantly higher than the industry norm. Additionally, for the eleventh consecutive year, *FORTUNE* magazine honored us as one of the "[100 Best Companies to Work for in America](#)."



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"100 Best Companies to Work For"

For the eleventh consecutive year, *FORTUNE* magazine honored REI as one of the "100 Best Companies to Work for in America." This year REI was ranked number 34. We're proud to be one of just 14 employers included every year since the magazine began compiling the list in 1998, and one of five companies included in two earlier book versions. We continue to be recognized for encouraging our employees to balance their work and personal lives.

The Great Places to Work Institute randomly selected 400 REI employees to complete an employee opinion survey measuring workplace pride, respect, credibility, fairness and camaraderie. Two-thirds of the final ranking is based on the results of the employee survey, and one-third is based on company-provided information regarding our culture, policies and benefits.

While we're proud to receive this public recognition, we're also pleased with in-house indicators that show a satisfied workforce: our [high employee engagement](#) survey results and [retention rates](#).

An additional recognition we received in 2007 was the highest possible rating on the Corporate Equality Index. This annual survey, developed by the Human Rights Campaign, measures how U.S. companies treat their gay, lesbian, bisexual and transgender employees, consumers and vendors.



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Employee Engagement & Retention

Every fall we conduct an anonymous survey measuring the level of employee engagement at REI. The online survey is available to every employee and covers a wide range of subjects including operational and leadership effectiveness, communications, and the co-op's benefits package.

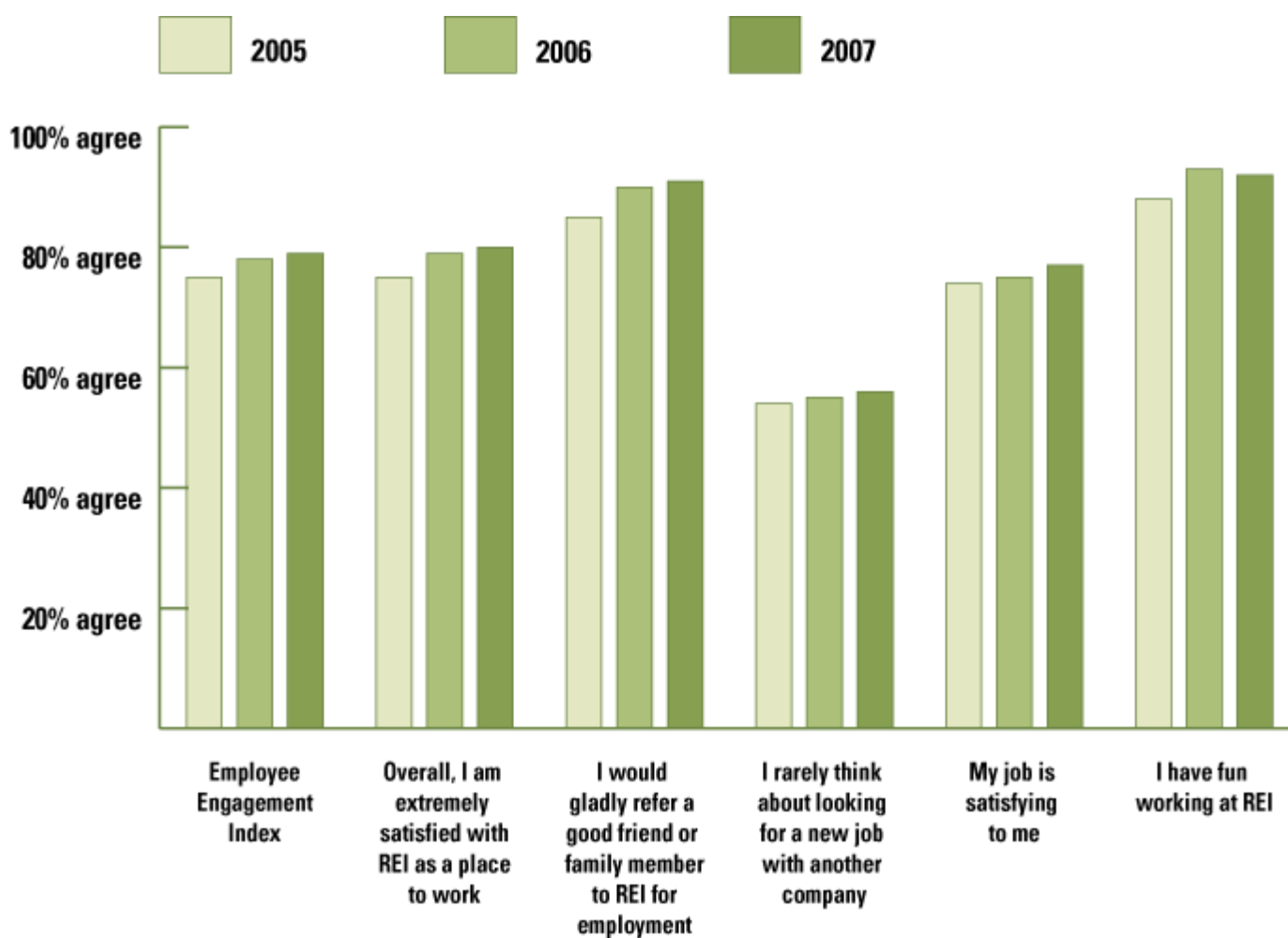
Last year, 83 percent of employees provided valuable feedback so we can learn how to make REI an even more rewarding place to be part of. Being "engaged" means employees are satisfied with their jobs, committed to their work, loyal to REI and willing to help shape our successes.

Of those that responded to the 2007 survey:

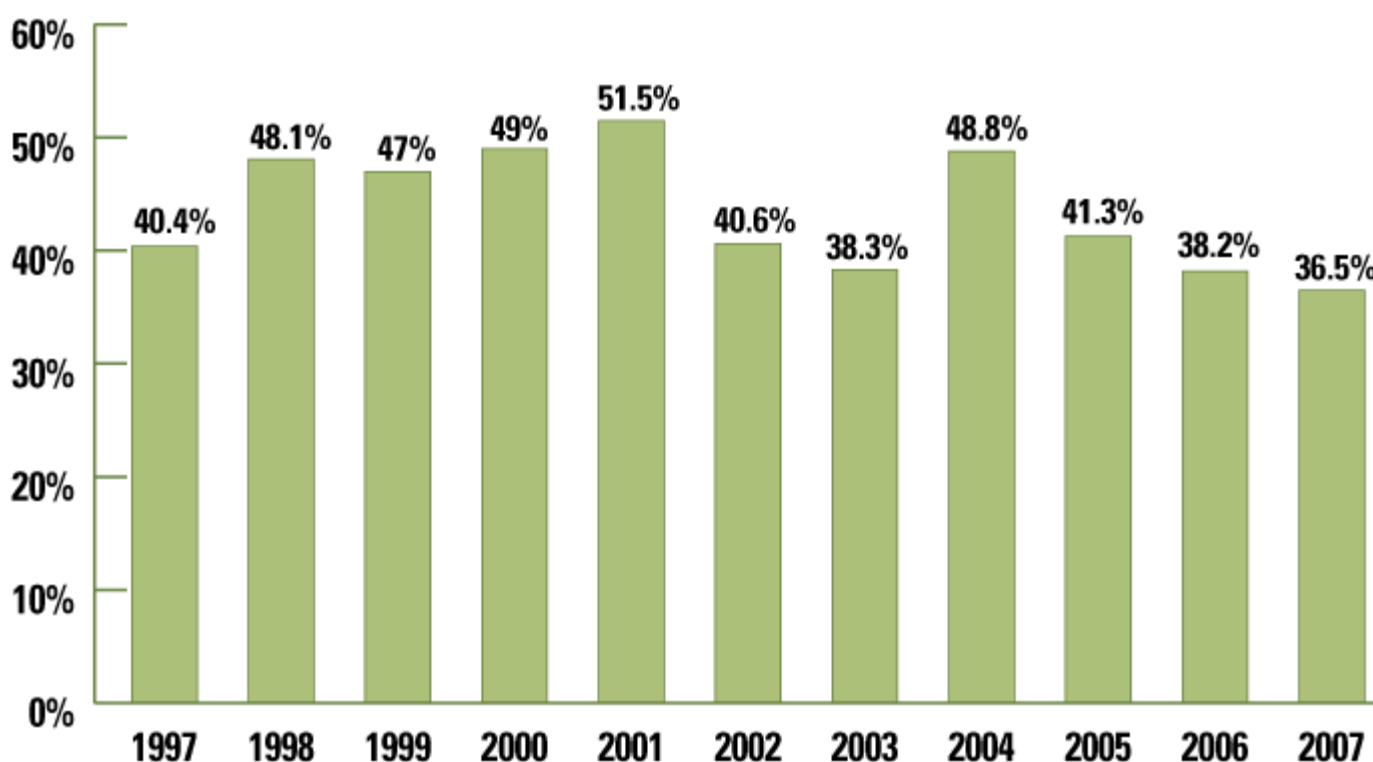
- 79 percent consider themselves highly engaged team members — retail industry norm is 55%
- 80 percent are extremely satisfied with REI as a workplace
- 92 percent have fun at work
- 91 percent would refer a good friend or family member to REI for employment
- 90 percent gave REI a favorable rating, indicating their work environment was welcoming and inclusive

In 2007 our employee turnover rate was 36.5 percent, well below the retail industry rate of 101 percent. We credit our strong workplace culture, sense of employee ownership, and comprehensive benefits package for helping us retain our talented workforce. For the past four years, our turnover rate has declined, and in 2007 was the lowest in 10 years.

Employee Engagement Index



Overall Company Turnover





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Customized Work Environment

In our 2006 REI employee survey, our headquarters employees shared a desire to work in more flexible work environments and/or a lack of balance in their lives. REI's Customized Work Environment (CWE) was developed to create and sustain a supportive workplace that helps employees be successful at work and in their personal lives.

CWE offers a range of flexible work options: flextime, compressed work weeks, part-time work, job sharing, telecommuting and other arrangements meant to guide managers and employees in considering possible flexible work arrangements. CWEs can directly benefit REI's bottom line through:

- Enhanced ability to attract and retain talented people
- Greater employee satisfaction, morale and engagement
- Increased effectiveness and productivity
- Better coverage of business operations and availability to customers
- Improved/reduced employee commutes

In 2007 we launched a CWE pilot with three departments at our headquarters in Kent, Wash. - Information Technology, Merchandising and Human Resources. These teams were selected because they represent a broad range of functions and jobs, and each group was in a different stage of implementing their own flexible working arrangements.

The pilot is currently testing the process, guidelines and resources we have developed, and generating feedback on possible improvements. In 2008, we expect to launch CWE across REI's headquarters where we are able, and we will evaluate the program for implementation in distribution centers and retail.



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Employee Pay and Benefits

We offer our employees comprehensive benefits and pay packages, including several options that are highly unique in the retail industry. Visit REI.com/jobs for a complete overview of the benefits package offered to employees. Following are a few highlights from 2007, including program improvements and financial incentives:

Vacation and sick benefits for part-time employees — Part-time employees are valuable contributors to the co-op. In 2007, we began providing more generous part-time vacation accruals, based on years of service. By doing so extended improved sick and vacation time benefits about 1,000 additional part-time team members.

Financial incentives — Based upon the financial success of the co-op in 2007, REI funded more than \$14 million in incentives for eligible full and part-time employees, in addition to the nearly \$2 million in mid-year payouts in July 2007. Retail employees received financial incentives twice annually based on the success of the co-op. Since the program was introduced in 2001, more than \$97 million in incentive pay has been distributed to employees.

Retirement and profit sharing — In February 2008, the co-op distributed more than \$19 million to employees via our retirement and profit sharing plan. Eligible employees received a 15 percent contribution to their plan whether they contributed to it themselves or not — far exceeding the retail industry norm of three percent. This represents full funding of a 10 percent discretionary company contribution under the profit sharing plan, in addition to the five percent guaranteed contribution to the retirement plan.

Health Care Coverage — In addition to offering extensive health care benefits to employees who work 20 or more hours a week, we offer an unprecedented subsidized Part-Time Healthcare (PaTH) to our employees regardless of the hours worked. In 2007, about 2,300 part-time teammates were covered under PaTH.

New Benefits — In 2007, we added other supplementary benefits, including discounted gym memberships and a smoking cessation program for all employees, and a weight loss assistance program for Puget Sound-area employees in Washington.



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Diversity & Inclusion

We define diversity as the wide range of differences that make each employee, co-op member, customer and community member unique. Primary differences include age, race, gender, race/ethnicity, religion, physical abilities and sexual orientation. Secondary differences include marital status, parental status, educational level, work experiences, personal values, belief systems, and individual goals and ambition.

We value diversity in our workforce, membership and community, and recognize that there are opportunities for REI to become more reflective of the communities we serve. We've recognized the need to focus on diversity and inclusion for several years, but formally incorporated them as long-term priorities in the 2006 REI strategic plan. In 2007, the co-op's three top priorities were:

- Employee Diversity — Recruit, develop, promote and retain a workforce representative of the diversity of our communities in terms of gender, age and ethnicity.
- Diversity in the Outdoors — Better understand and serve the human-powered outdoor recreation needs of communities of color across the country.
- Inclusion in the Workplace and Customer Shopping Experience — Create a workplace environment and retail experience that is welcoming and respectful of all people.

Three steering committees were formed to work on our above stated priorities, each with the goal of delivering short- and long-term strategies that could be implemented across the company.

We believe we can do a better job attracting, developing and retaining a workforce that represents the evolving groups of people who share or will share our love of the outdoors. With a more diverse workforce, the co-op can be more purposeful in our actions and community connections. Additionally, employees who are representative of our customers and communities will provide an authentic and welcoming experience in the communities where we do business.

In 2007 more than 400 employees participated in more than 40 focus groups held in six cities across the country to share their perspectives on inclusion at REI. Additionally, in our annual all-employee survey, our staff gave a REI 90 percent favorable rating indicating the environment in which they work reflects a welcoming and inclusive workplace. Even with these encouraging figures, we believe we still have improvements to make.

The Diversity in the Outdoors steering committee launched a pilot program in San Diego, Calif. to better understand the city's Latino community and how REI might be an improved resource to the city's residents. The pilot will continue through 2008. The committee also met with 20 community leaders in the area to better understand REI's opportunities.

Our diversity and inclusion efforts will continue to receive generous investment of resources in the coming years.

Employee Demographics

Within REI we look closely at employee demographics such as age, race/ethnicity and gender. We believe that long-term trends provide a more accurate and holistic way to track measurable progress rather than creating accountability standards around a quota system.

Employee Demographics

	2006 Employees	2006 Percentages	2007 Employees	2007 Percentages
Status				
Full Time	2,758	32.4%	3,610	37.9%
Part Time	5,764	67.6%	5,926	62.1%
Gender				
Female	3,411	40.0%	3,899	40.9%
Male	5,111	60.0%	5,637	59.1%
Ethnic Identity				
African-American	157	1.8%	179	1.9%
Asian/Pacific Islander	499	5.9%	525	5.5%
Caucasian	7,464	87.6%	8,343	87.5%
Hispanic/Latin	335	3.9%	352	3.7%
Native American/Alaskan Native	67	0.8%	70	0.7%
Other Ethnicities	0	0.0%	59	0.6%



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Recruiting

A priority at REI is to attract and engage a talented workforce that reflects the diversity of our communities. In 2006 we began moving REI's hiring functions from a staffing model to a recruitment-oriented organization. In 2007 we made major organizational investments by hiring a director-level leader to oversee recruitment and adding two field-based recruitment positions to support management hiring in local markets.

Our vision of talent management and recruiting is to "fuel the longevity and success of REI as a premier recruiting organization known for driving talent strategies and inspiring a recruiting culture." Six aspirations guide our efforts:

- Build a best-in-class recruiting team
- Create an REI recruiting culture
- Leverage our employment brand to better communicate that REI is a great place to work
- Implement strategic sourcing methods that enable REI to proactively build a pipeline of candidates representing the diversity of our communities. Techniques include employee referrals, cold calls, internet recruiting networking and outreach
- Identify internal and external talent through a talent management strategy
- Develop integrated talent management systems to recruit and track talent effectively. Deploy and communicate with that pipeline of talent

Additionally, in the coming year we will enhance our recruiting process by implementing a new enterprise-wide applicant tracking and on-boarding system to enable us to have full access to all available candidates, and improve the efficiency of our hiring processes.



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Employee Demographics

At REI, we dedicate significant time and staff resources to ensure our work environment is inclusive for all employees, co-op members and customers. This is accomplished through employee training and orientation and training new retail management supervisors how to be culturally aware.

In 2008 REI earned the highest possible rating on the Corporate Equality Index. This annual survey, developed by the Human Rights Campaign, measures how U.S. employees treat their gay, lesbian, bisexual and transgender employees, consumers and vendors.

Within REI we look closely at employee demographics such as age, ethnicity and gender. We believe that long-term trends provide a more accurate and holistic way to track measurable progress than creating accountability standards around a quota system.

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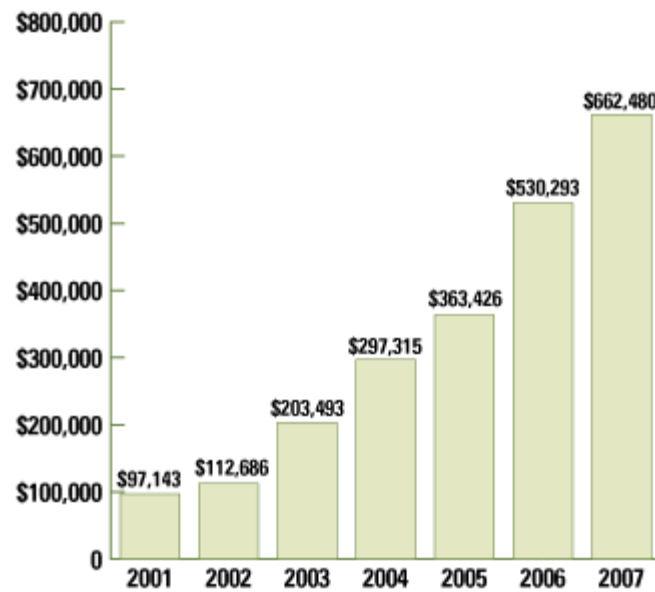
Charitable Action Campaign

REI's Charitable Action Campaign (CAC) is our opportunity to extend our core value of service through personal philanthropy. We partner with the United Way and Earth Share, each of which supports a wide variety of organizations in our communities. Employees are also able to identify nonprofit organizations of personal importance in their local community or across the globe.

REI matches every donation up to \$1,000, automatically doubling our employee's contributions. In 2007, 1,300 employees collectively donated \$662,480 to United Way and Earth Share and to 900 nonprofit organizations around the world. This represents a 12 percent increase in employee participation and a 26 percent increase in dollars over last year.

All in all, with REI's matching funds of \$526,560, we collectively generated a total of \$1.19 million. 2007 marked the first year that our CAC has raised more than \$1 million.

REI Charitable Action Campaign (employee donations)





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Factory & Labor Compliance

At REI we are driven to provide safe, healthy, employee-friendly work environments. This extends not only to our team members in the United States, but also to those employed by our manufacturing partners. Our goal is — as it has been for more than a decade — to assure that factories where REI brand gear and apparel are made provide appropriate, safe and humane working environments that meet our expectations.

Fair labor and factory compliance is complicated because we sell our own branded goods and the goods of others. We also source products both domestically and internationally, often in developing countries. While labor laws in some of these countries meet internationally recognized standards, others do not yet meet our accepted standards to ensure compliance.

We take a two-pronged approach to reach our above-stated compliance goal:

- Through the use of audits, we work to achieve **factory compliance** in the contract facilities where REI products are manufactured.
- We **collaborate with outdoor industry peers** on a common set of compliance standards where non-REI branded products are developed.

Our ongoing work is moving us closer to the long-range goal of assuring that all products sold in REI stores are manufactured in factories that adhere to international standards of safety and fair labor.



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Factory Compliance

REI does not own any manufacturing facilities, and therefore we work with partners in the United States and around the globe to manufacture REI-branded gear and apparel. These products represent approximately 20 percent of the items sold by the co-op.

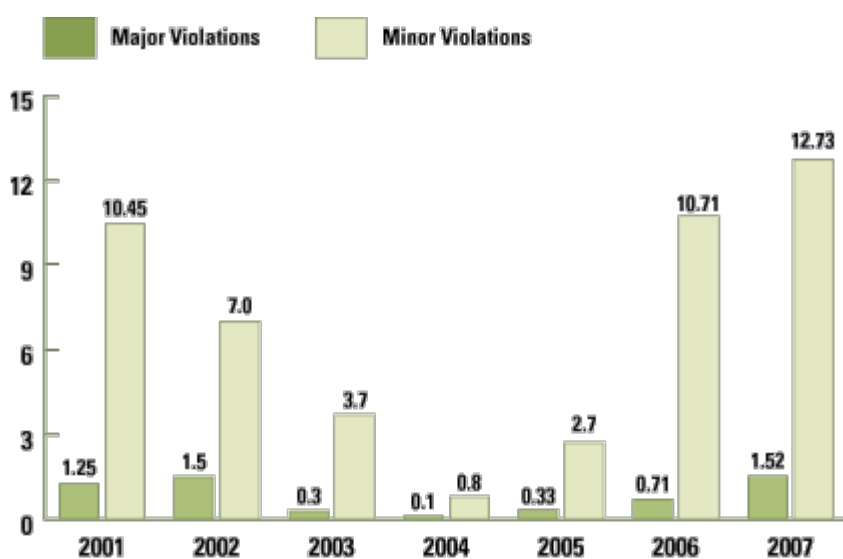
Our contract factory partners are an extension of our brand and ensuring safe and healthy working environments for their workers is critically important. We seek to develop and maintain trusting relationships with factory owners to help ensure that workplace conditions protect the workers who make our products.

Process for Sourcing Standards Compliance

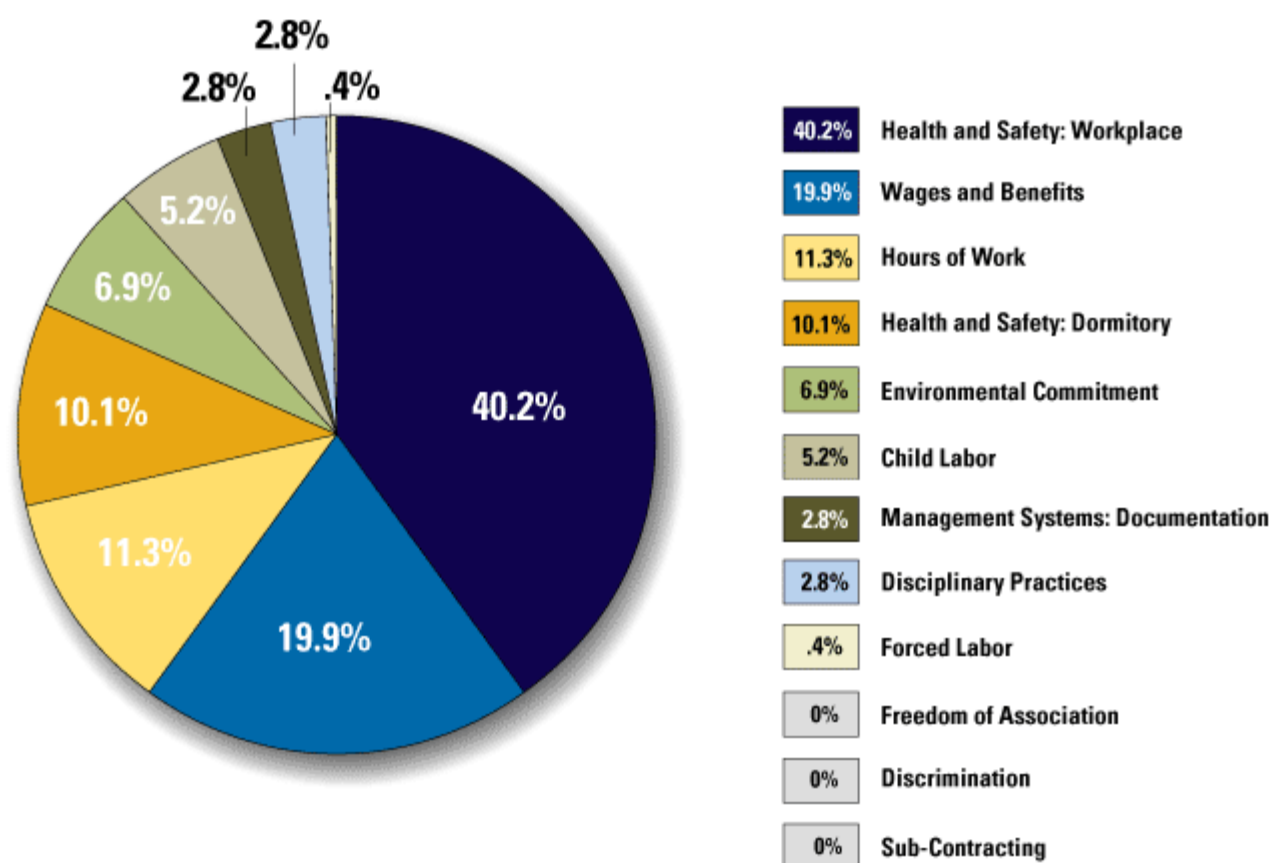
New factories and new vendors must be prequalified. This requires a vendor to provide a self evaluation of compliance with REI's [policy for labor and workplace practices](#). The factory can provide evidence of compliance by either showing certification to WRAP, SA8000, or FLA, or providing a recent audit from an independent audit firm. If none of these are available, we may schedule a full audit. If violations are found, we require implementation of a corrective program.

In 2007, more than 50 percent of our contract factories, representing 95 percent of the dollar value of REI brand products had undergone a full audit by a third party auditor.

Minor vs. Major Violations (number of violations per audit)



Audit Violations (percentage of total violations)



Violations

Each year our teams audit approximately 20 factories that manufacture REI-branded products. When we find instances of wage and hour or health and safety violations, we work with factories to implement corrective actions and resolve issues.

The graph illustrates that the current model of auditing without addressing root causes fails to yield sustainable improvement. The increased number of audits in factories outside of the apparel sector has resulted in a higher number of violations. We also see an increase in violations in vendors we're auditing a second time.

Challenges

Factories face conflicting demands of shorter lead times and higher margins, and the compliance expectations to limit overtime and pay legally mandated wages. To address this, we have:

- Improved audit practices to discover falsification of records
- Encouraged supplier transparency by assuring them that wage and hour violations will be addressed by developing a long-term plan for continuous improvement, but that record falsification can result in termination

- Engaged suppliers and other brands to better understand the conflicting demands that have created the current problem

Future

After a decade of auditing, we realize the limitations of the current audit model. While some areas have improved (health and safety practices), others remain unchanged (wage and hour violations).

While factory audits continue to be a mainstay of REI's efforts, we are developing new processes and programs to enhance effectiveness. For example, to address record falsification we have engaged an audit company to audit only one factory for one customer — REI — and the brand we're collaborating with. This will encourage the factory to be transparent and not worry that another brand with a zero tolerance policy will come in and put them at risk to lose all of their business.

And in 2008, members of the Outdoor Industry Association Factory Labor Working Group will meet with a group of their major factory suppliers to discuss why factory owners falsify records.



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Industry Collaboration

We want to be ensured that the non-REI branded products we sell are manufactured following procedures that align with our core values. We have set high standards for fair labor practices with our factory partnerships, and we inspire leadership across the outdoor industry.

In 2006 we partnered with the Outdoor Industry Association (OIA) to publish a [fair labor toolkit](#) to help companies do a better job of ethical sourcing and raising awareness of labor compliance issues throughout our industry.

In 2007 we piloted a program to learn about the labor compliance programs of our non-REI brand vendors, by working with 20 vendors representing the scope of our business. This process helped us better understand how prevalent labor compliance programs are among our vendor base, and develop the tools needed to inform and educate brands on this topic.

Highlights

Through our work, we continue to raise expectations among other brands that they should examine labor conditions in their supply chains. In parallel, we work through the OIA to help develop tools making it easier for vendors to complete the auditing process. This has increased the scope of our efforts exponentially.

Because our business spans industries in which labor compliance is prevalent (apparel manufacturing) and industries where it is less so (light manufacturing), we have the ability to help create labor compliance competence where it has historically not existed.

Challenges

After a decade of effort we realize that we still have work to do to accomplish our goals.

Looking Forward

Our next step is to understand how the top 50 brands in our portfolio are performing in labor and factory compliance. Our long-term goal is to have reasonable confidence that all brands carried at REI are manufactured in facilities that adhere to recognized international standards of fair labor.