

The California Transparency in Supply Chains Act of 2010 REI's Disclosures

REI Support of Human Rights in Our Business Practices

REI is a national outdoor retail co-op dedicated to inspiring, educating and outfitting our members and the community for a lifetime of outdoor adventure and stewardship. We are known for our commitment to social responsibility, both as an employer and in how we do business. REI promotes environmental stewardship and increases access to outdoor recreation through volunteerism, gear donations and financial contributions. We have been recognized as one of Fortune Magazine's "100 Best Companies to Work for" for 18 consecutive years.

Our goal is to ensure that human rights are upheld for all workers involved in our supply chain, and that individuals experience safe, fair and non-discriminatory working conditions. A supply chain includes every phase of the process of bringing a product to market, from raw materials through purchase by the customer. Companies doing business internationally have learned that relying on local laws and enforcement is not always enough to achieve specified standards for human rights throughout the supply chain.

This document describes REI's actions to support human rights, including our actions in response to disclosure requirements of the California Transparency in Supply Chains Act of 2010 (the "Act").

Overview of REI's actions to support human rights

REI's supply chain relies on sources around the world. The raw materials used in our merchandise are produced globally. Manufacture of our merchandise occurs domestically and internationally, including our REI private labels and merchandise produced by independent, outdoor industry companies whose products are sold by REI.

REI recognizes fair labor practices as being an inherent part of human rights. Much of our focus on human rights in business practice has centered on our **own private label suppliers** and on the Tier One phase of manufacturing, when previously manufactured materials are assembled in a factory. We also sell goods in our stores produced by **our merchant vendors** (other outdoor industry companies). While many of our merchant vendors have fair labor compliance programs in place, REI's Vendor Guide also stipulates that all vendors must apply REI standards in their production facilities.

Since 2006, REI has reported to the public on our actions to support human rights in the workplace. This information is part of our annual Stewardship Report, available on our website http://www.rei.com/aboutrei/about_rei.html

REI's key actions in support of human rights include:

- A rigorous process for evaluating potential supplier factories.** Every facility that wishes to work with REI, whether contract or subcontract, must qualify as an REI vendor. REI first evaluates factories on fair labor practices and other considerations important to our business. Each supplier factory must complete a rigorous Fair Labor audit that examines the facility's fair labor practices. Once a facility is approved, the organization must sign a Vendor's Agreement to Comply form. Signing the compliance form authorizes the specific facility to produce REI-brand product in compliance with the

REI Factory Code of Conduct. Signing this agreement does not mean that a supplier is authorized to produce REI-brand product at any other facility.

- Abiding by a Factory Code of Conduct.** REI first introduced a Factory Code of Conduct in 1993. Our Factory Code of Conduct addresses human rights principles and sets standards of workplace conduct for the factories that produce products we sell. The Factory Code of Conduct applies to factories producing our own private label products and the products of other brands that REI sells in its retail locations. REI's Factory Code of Conduct is supported through regular assessments of the suppliers that we work with, including an ongoing audit and capacity-building program.
- Support and use of our industry's Fair Labor Toolkit.** In 2006, we began an ongoing partnership with the Outdoor Industry Association (OIA) to develop, publish and maintain the Fair Labor Toolkit. The Fair Labor Toolkit is designed to help companies get started on the development of a social compliance program. The OIA Sustainability Working Group is currently restructuring the toolkit to better accommodate the needs of smaller companies.
- Information-sharing across industries.** In 2009, we joined the Fair Factories Clearinghouse (FFC) to promote and participate in deeper collaboration across several industries. FFC members often work with the same suppliers to manufacture their merchandise and share fair labor compliance audit results. This information sharing helps retailers as a whole set consistent expectations with their suppliers and share very detailed information on factory environments.
- Direct involvement and accountability of senior leadership in our commitment to human rights.** REI has a dedicated team responsible for our Fair Labor Program. This team is a part of our Private Brands Division under the Product & Supply Chain Sustainability Manager who reports to the Divisional Vice President of Operations. In addition to dedicated staff, REI's Fair Labor Oversight Committee (FLOC) oversees the development of the Fair Labor Program. The FLOC is chaired by the Senior Vice President and General Counsel. Its membership includes REI's Divisional Vice President of Private Brands, the Associate General Counsel, the Vice President of Corporate Strategy, and the Vice President of Public Affairs. The FLOC reports to the Audit and Finance Committee of REI's Board of Directors.

A concern for human rights is an inherent part of REI's approach to fair labor practices. The following pages describe REI's response to the human rights legislation passed by the State of California. This report includes our actions, our progress and areas where we are improving our vigilance.

The California Transparency in Supply Chains Act of 2010

In 2010, the California Legislature passed The California Transparency in Supply Chains Act of 2010, a law which applies to large manufacturers and retailers doing business in California.

As described in a bill analysis prepared by the California Senate Judiciary Committee, the goal of the Act is to ensure that retail manufacturers and sellers develop, maintain and implement policies related to their compliance with federal and state law regarding the eradication of slavery and human trafficking from their supply chains¹. Human trafficking involves the recruitment, transportation or sale of people for forced labor.

The Act applies to larger manufacturers and retailers with annual worldwide gross receipts over \$100 million. Beginning January 1, 2012, the Act specifically requires retail sellers and manufacturers doing business in the state to “disclose their efforts to eradicate human slavery and trafficking from their direct supply chains for tangible goods offered for saleⁱⁱ.” The Act requires that the information be posted on the company’s website, with a conspicuous and easily-understood link on the company’s homepageⁱⁱⁱ. The company must also disclose its specific actions in relation to five key points, as described in the Act:

Number 1: Engages in verification of product supply chains to evaluate and address risks of human trafficking and slavery. The disclosure shall specify if the verification was not conducted by a third party.

Number 2: Conducts audits of suppliers to evaluate supplier compliance with company standards for trafficking and slavery in supply chains. The disclosure shall specify if the verification was not an independent, unannounced audit.

Number 3: Requires direct suppliers to certify that materials incorporated into the product comply with the laws regarding slavery and human trafficking of the country or countries in which they are doing business.

Number 4: Maintains internal accountability standards and procedures for employees or contractors failing to meet company standards regarding slavery and trafficking.

Number 5: Provides company employees and management who have direct responsibility for supply chain management with training on human trafficking and slavery, particularly with respect to mitigating risks within the supply chains of products.

REI’s Response to the Act

The following are REI’s actions related to each key point described in the Act.

Number 1: Engages in verification of product supply chains to evaluate and address risks of human trafficking and slavery. The disclosure shall specify if the verification was not conducted by a third party.

REI regularly evaluates and addresses human rights issues as part of our commitment to fair labor practices within our supply chain. This begins with our evaluation of new countries of origin and new factory partners. Cross-divisional collaboration involved in this effort includes our Fair Labor, Customs Compliance, Quality and Sourcing teams. Executive management also has a role in this process, and that role is exercised through the FLOC (see page 2).

Our process for establishing a supplier relationship

Many REI divisions are involved in evaluating new countries to source from and new factory partners. When considering a new country, the REI Sourcing, Customs Compliance and Fair Labor teams vet it for political stability and port safety, the government’s backing of labor law, known labor issues, percentage of migrant labor, REI employee safety and travel and other factors. At the factory level, REI assesses the workforce profile, the manufacturing processes and the associated health and safety risks. Third-party monitors always conduct initial audits prior to REI issuing any production orders. We continue to assess supplier factories on a regularly basis using a risk matrix. After the Fair Labor team assesses the findings of any audit, the factories are ranked by a color-coded system and prioritized for corrective action remediation.

To date, the primary focus of our efforts has been REI private label apparel, camping gear, bicycles and accessories. In recent years, REI has established relationships with reputable and experienced third-party auditors, who work directly for us to audit suppliers' factories. In assessing the REI supply chain, our third-party monitors cross reference factory policies and procedures against the REI audit scope, based on the REI Factory Code of Conduct. The audit process involves both announced and unannounced audits; observation and walk-throughs of each factory and related facilities such as dormitories; and interviews of factory workers, both on the factory floor and in private interviews outside of factory grounds. REI fair labor or private brand employees are onsite for the audits when feasible.

REI's Factory Code of Conduct addresses the prohibition of trafficking and/or slave labor in four code elements: Harassment or Abuse; Recruitment and Hiring; Compensation; and Health and Safety. The code elements read as follows:

HARASSMENT OR ABUSE

Employers will not use physical or psychological disciplinary tactics. Furthermore, employers will not subject employees to threats of violence, sexual harassment, or psychological abuse

RECRUITMENT AND HIRING

Voluntary Employment

Employers will not use forced labor, including imprisonment, indentured, bonded, or any other form of compulsory labor.

Minimum Hiring Age

Employers will not use persons younger than 16 years of age (or who are younger than school compulsory age, if that is older than 16 years) in any of their facilities.

COMPENSATION

Employers will meet all legal requirements for wages and benefits in the country in which they are conducting business, or local industry standards, whichever are higher.

HEALTH AND SAFETY

Employers will provide workers with a safe and healthy work environment in compliance with all applicable laws and regulations. The same standards will apply to residential facilities, where they are offered.

REI's audit scope includes the following Forced Labor provisions, which are verified by REI's third-party auditors:

- Factory ensures that the workplace is free from any type of violence, harassment, or abuse, be it physical, sexual, psychological, verbal, or otherwise.
- Factory has a written non-harassment or abuse policy in place which has been communicated to all workers.
- Factory provides training to managers and supervisors in appropriate disciplinary practices and monitors their behavior.
- Factory does not employ anyone under the age of 16 or under the age for completion of compulsory education, whichever is higher.
- Factory has an effective age verification system and maintains proof of age documentation.
- Factory complies with all relevant laws that apply to young workers (workers between the ages of 16 to 18) including regulations relating to hiring (government

permit/registration, health check, etc.), working hours, and not working in hazardous positions.

- Factory does not use any form of forced labor in which workers' freedom of movement, ability to willingly leave work, and human rights are denied or severely restricted. This includes: prison labor, trafficked workers, and indentured workers.
- Factory does not bind workers to employment as a condition of fulfilling terms of a debt to a third party or to the employer.
- Factory complies with all national laws, regulations, and procedures concerning compensation.
- Factory provides reasonable meal and rest breaks, which, at a minimum, must comply with all local laws.
- The overtime working hours (per day, per week, and per month) in the factory meet legal requirements.
- Workers can keep all of their original documents, such as passports, identity papers, travel documents, or any other personal legal documents.
- Workers are free to leave the factory premises when their work shift ends, at non-paid rest periods, and in the event of a personal emergency during working hours.
- Workers are allowed free access to bathroom facilities and drinking water.
- Workers have the right to end their employment at any time.

Currently REI does not audit or monitor factories producing goods for REI merchant vendors (other outdoor industry companies) whose products are sold by REI. REI's Vendor Guide, however, requires that merchant vendors apply REI's Factory Code of Conduct standards in their production facilities.

The REI Factory Code of Conduct is included in the vendor on-boarding packet. The precise language states:

“Based on REI’s commitment to practicing business with Vendors who share our basic values, we consistently apply the following standards as we select REI vendors, domestic or international. It is REI’s expectation that every vendor who supplies REI will monitor their own sourcing processes to ensure that they meet or exceed these standards.”

In addition to the language contained in the Vendor Guide, REI includes the following language in the Purchase Order Standard Terms and Conditions (for Product Resale):

“Products shipped under the (specific) PO were purchased in compliance with all applicable laws, regulations, orders and ordinances of the country of origin and of the United States, and any state, or an agency or political subdivision thereof.”

Number 2: Conducts audits of suppliers to evaluate supplier compliance with company standards for trafficking and slavery in supply chains. The disclosure shall specify if the verification was not an independent, unannounced audit.

Currently, REI audits 25% percent of our supplier sites per year on average. These sites account for approximately 40% of production volume. We participate in additional, shared audits through the Fair Factories Clearinghouse (FFC). REI selects third-party service providers that utilize the most progressive methods for detecting noncompliance with the REI Factory Code of Conduct. While some audits are announced, REI conducts unannounced audits as well. When a supplier is asked to remediate a violation of the Factory Code of Conduct, unannounced audits enable REI to confirm if remediation has occurred.

REI's auditing and remediation practices reference and rely upon guidance from the International Labor Organization, the Fair Labor Association and recognized, credible labor rights organizations dedicated to promoting fair labor practices and safe working conditions worldwide.

Number 3: Requires direct suppliers to certify that materials incorporated into the product comply with the laws regarding slavery and human trafficking of the country or countries in which they are doing business.

REI recognizes the importance of protecting the human rights of workers who produce the raw materials for our products. We are focusing on two efforts:

- Developing better industry-wide measurement tools to uphold human rights throughout the supply chain, including the raw materials phase.
- Providing clear guidance to our suppliers on our human rights standards.

Measurement

REI's Fair Labor Program was merged into the Product & Supply Chain Sustainability team in August of 2014. This merger has strengthened visibility into our supply chain, tracking a product to the raw materials stage. Good measurement capabilities can help retailers better assess fair labor issues at the raw materials stage. As a member of the Sustainable Apparel Coalition, REI helped create a sustainability measurement tool (the Higg Index), an evaluative protocol used to identify the environmental and social impacts of product manufacturing. The Higg Index has been in use since 2012, including at many of our material suppliers.

Suppliers

REI specifies in our Factory Code of Conduct Agreement that manufacturing partners must associate with suppliers that comply with legal requirements in any country in which their business is conducted. Below are examples of REI's Contractual Terms Applicable to REI Purchase Orders:

"Based on REI's commitment to practicing business with vendors, who share our basic values, we will consistently apply the following set of standards as we select vendors, whether domestic or international, for products carrying the REI label. These standards will apply to all vendors, including contractors and / or manufacturers, of products carrying the REI label. These standards also supplement, amend and apply to all purchase orders and other agreements between REI and each vendor accepting these standards.

Each vendor shall be provided with a copy of the REI Code of Conduct Standards and shall be responsible for ensuring that every facility used by such vendor to produce REI product, packaging and labeling meets or exceeds the requirements in each area of the standards below.

Vendors must maintain current sufficiently detailed records to substantiate their compliance with this Code of Conduct. These documents must be made available to REI employees or anyone acting on behalf of REI on request. Such documents should include: (i) Personnel files on each employee reflecting proof of age; (ii) Working hours and payroll records by employee; (iii) Local health and safety evaluations; (iv) Employee grievances and suggestions and employer responses; (v) Documentation of exemption from local law; (vi) Payroll records; (vii) Terms and conditions of employment."

Qualifying Factories

Each qualifying factory is to fulfill these three obligations as a part of the Vendor Onboarding Process:

- Listing all factory or facility locations. At this point REI does not require a complete listing of each materials supplier.
- Providing a signature by a principal of the company contracting business with REI and by the resident general manager of the factory or facility.
- Completing the General Information page of the Fair Factories Clearinghouse Self-Assessment.

Number 4: Maintains internal accountability standards and procedures for employees or contractors failing to meet company standards regarding slavery and trafficking.

REI has an escalation process in place in the event that we identify a potential violation of human rights. To date, we have never encountered a violation related to slavery or trafficking in any of our supplier facilities. We have used our escalation process to work with suppliers to remedy potential fair labor violations.

Escalation process

REI considers fair labor practices an important part of human rights. REI's approach to fair labor violations focuses on working with suppliers to remedy the violations, uphold workers' rights and improve the overall workplace environment.

In the event of a potential violation, REI promptly addresses the issue with the supplier and sets expectations for how the situation is to be addressed, based on internationally recognized best practices and standards for fair labor compliance. Any potential violation is reported to the REI FLOC.

We then conduct unannounced audits to confirm that the supplier has addressed and remedied the potential violation. If a supplier does not correct the violations, we are prepared to end the relationship with that supplier. We would also share information on the situation with other retailers doing business with that entity or considering a prospective partnership. The primary purpose of sharing information with other retailers is to collectively apply leverage on the manufacturer to encourage compliance.

REI understands the importance of eradicating slavery and human trafficking. In the event of a potential incidence of slavery or human trafficking in our supply chain, we would use our escalation approach, but also seek broader support.

Internal accountability

As previously described in this disclosure, REI's senior leadership has direct involvement and accountability in supporting our commitment to human rights. The FLOC meets on a routine basis and is provided regular reports on audit findings and trend analysis. The standard operating procedure for the program also defines an escalation plan for certain Factory Code of Conduct violations whereby the FLOC is notified immediately. Violations of the forced labor section of the Factory Code of Conduct fall within the bounds of the escalation plan. In addition to program reporting to the FLOC, the Audit and Finance Committee of the Board of Directors is provided with periodic program updates.

Number 5: Provides company employees and management who have direct responsibility for supply chain management with training on human trafficking and slavery, particularly with respect to mitigating risks within the supply chains of products.

Before the Act was ratified, our Fair Labor team and the Director of our Corporate Social Responsibility program received training on human trafficking and slavery issues. In 2012 REI hired the Cahn Group third party to develop a training program on human trafficking and slavery issues for a broader audience at the REI headquarters in Kent, Washington. The training included the use of online modules, break-out sessions and group discussion. In September, 2012 we hired the same resource to provide an adapted training for the Asia-based REI Quality team and office staff. The Asia-based REI employees are now trained to identify potential human rights violations and to seek assistance from colleagues in Fair Labor Compliance.

REI has since implemented a Visual Observation Checklist. This tool is used by employees who frequently visit production sites. It provides guidance on topics to observe and/or discuss with the factory management. Questions include:

- Did there appear to be no physical or verbal abuse and/or harassment during the factory tour?
- Do the workers have free access to the toilet and to clean drinking water?
- Do all workers appear to be over the age of 16?

While not as robust as a full audit, the Visual Observation Checklist serves as both a training tool for internal staff and as a means of verifying factory conditions between audits. When a Visual Observation Checklist is completed, the results are automatically uploaded to FFC and, if necessary, a corrective action plan is established.

Conclusion

REI is committed to upholding human rights as we conduct every aspect of our business. We will update this document to reflect our progress in preventing and addressing potential human rights violations in our supply chain, particularly in the areas of slavery and human trafficking. We encourage our members, customers and the public at large to review this document and our Stewardship Report in the About REI section of our public website, www.REI.com.

i Bill Analysis, SB 657, California Senate Judiciary Committee

ii Bill Text, SB 657, Chapter 556, Filed with Secretary of State Sept. 30, 2010

iii Bill Text, SB 657