RECREATIONAL EQUIPMENT, INC.
DISCLOSURES FOR CALIFORNIA TRANSPARENCY IN SUPPLY CHAINS ACT OF 2010

Recreational Equipment, Inc. ("REI" and/or the “coop”) is a national outdoor specialty retailer and the nation’s largest consumer co-op, with 6 million active members. Our core purpose is to inspire, educate and outfit for a lifetime of outdoor adventures and stewardship.

We believe that an outdoor life is a life well lived. That’s our passion. At REI, “stewardship” is how we talk about sustainability. The word “steward” reminds us that we are taking care of something that came before us and will be sustained long after we are gone.

REI has been recognized as one of Fortune magazine’s “100 Best Companies to Work for” for 20 consecutive years. The co-op promotes environmental stewardship and increases access to outdoor recreation through volunteerism, advocacy, gear donations and financial contributions.

We are likewise committed to social responsibility, both as an employer and in how we conduct business. Companies doing business internationally have learned that relying on local laws and enforcement is not always sufficient to achieve specified standards for human rights throughout the supply chain. To this end, the REI Fair Labor Program exists to promote fair, safe and nondiscriminatory working conditions for people working in the co-op’s supply chains.

This document describes REI’s actions to support human rights in the context of disclosures in accordance with the California Transparency in Supply Chains Act of 2010. Additional information on REI’s Fair Labor Program and other stewardship initiatives can be found at www.rei.com/stewardship.

The California Transparency in Supply Chains Act of 2010

According to the International Labour Organization (ILO), nearly 25 million people are victims of forced labor worldwide. The ILO estimates that 2.4 million of these victims are trapped in private-sector manufacturing and 2.6 million are in state-imposed compulsory labor for economic development.¹

In response, the California Legislature passed the California Transparency in Supply Chains Act of 2010 (the “Act”), a law that 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 chains.²

The Act applies to larger manufacturers and retailers with annual worldwide gross receipts over $100 million. It 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 sale.”³ Companies subject to the Act must post disclosures related to five specific areas: verification, supplier audits, certification, internal accountability and training.⁴

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² Bill analysis, SB 657, California Senate Judiciary Committee.
³ Bill text, SB 657, Chapter 556, filed with Secretary of State Sept. 30, 2010.
Prior to enactment, REI supported the legislation, and we see it as a policy lever that will assist in the global fight against human trafficking. Under no circumstances is it acceptable for child labor, forced labor or trafficked workers to be used in the production of any REI-branded product or any products from other brands retailed by REI. We believe that no person should be subject to a situation where basic needs and fundamental rights are denied.

**Support of Human Rights in Our Business Practices**

REI relies on global supply chains. Manufacturing of our merchandise occurs domestically and internationally. This includes our two private brands—REI Co-op® and Co-op Cycles™—and the products we retail from approximately 1,300 independent companies.

REI recognizes that fair labor practices are essential to ensuring that the rights of workers are respected. The REI Factory Code of Conduct (the “Code”) defines requirements for doing business with REI (see Appendix A). Our Code standards are based on International Labour Organization principles and internationally accepted fair labor practices. Where industry or REI standards are higher than required by law, employers are required to meet the higher standards. The Code explicitly states that forced labor of any kind is strictly prohibited.

Much of our focus on human rights in business practice has centered on our own private brands suppliers, especially suppliers of finished goods. This stage of manufacturing involves assembling previously manufactured materials into finished products.

REI also retails goods produced by independent wholesale vendors, mostly from the outdoor industry. REI’s contract with wholesale vendors stipulates that all vendors must have in place labor standards comparable to our Code. Our Vendor Guide further elaborates:

> It is our expectation that wholesale vendors to REI share our basic values about employee health and safety, employment practices, environmental commitment and legal compliance. REI requires that every wholesale vendor with products merchandised by REI will monitor its own sourcing processes to ensure product suppliers meet or exceed the standards outlined in the REI Factory Code of Conduct. [...] REI may contact wholesale vendors with requests to provide more details on internal programs to ensure that REI's standards are met. This includes information for specific products sold by REI.

Additionally, all wholesale vendors agree to REI’s Purchase Order Terms & Conditions, which stipulate: “Seller will at all times comply with all applicable laws and government rules, regulations and guidelines pertaining to its business, products, services, [and] employment obligations.”

**Verification**

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.

When considering new manufacturing locations, REI reviews multiple factors, including regional political stability, known labor issues, migrant labor patterns, local labor laws, government enforcement of labor laws, workplace safety, the existence of local or regional labor rights practitioners and other factors. At the factory level, REI assesses the workforce profile in the
context of these factors to identify potential risks, including the potential for child labor, forced labor and human trafficking.

All new finished goods vendors and factories for REI-branded products agree to meet or exceed REI’s Code prior to orders being finalized, which is then reviewed annually with suppliers and signed again. The Code strictly requires that employers “not use forced labor, including imprisonment, indentured, bonded, or any other form of compulsory labor.” It also prohibits “physical or psychological disciplinary tactics,” including “threats of violence, sexual harassment, or psychological abuse.” Additionally, recognizing the increased risk of forced labor and human trafficking when labor brokers are employed, REI has heightened scrutiny of the use of labor brokers when onboarding a new factory.

REI considers any violation of these Code elements to be a “zero tolerance” offense. In such instances, we refer to escalation and remediation guidelines adopted from the International Labour Organization.5

Third-party monitors conduct initial audits of new factories prior to REI issuing any production orders. Factories then enter an ongoing program of engagement and periodic auditing.

Supplier Audits

REI uses audits to assess factories’ compliance with our Code. To date, the focus of our efforts has been factories producing REI-branded products. We have established relationships with reputable and experienced third-party monitors who work directly on behalf of REI to audit suppliers’ factories. In assessing the REI supply chain, our third-party monitors vet factory policies and practices against the REI Code. These monitors seek out indications of forced labor and human trafficking. They also review the presence and quality of internal grievance systems for factory workers.

REI Sustainability staff periodically observe audits, particularly when the factory is considered to be at a higher risk of noncompliance. Our Sustainability staff and third-party monitors have deep knowledge of common issues from observing audits, interviewing workers and engaging with factories over extended periods of time.

We use both announced and unannounced audits. Announced audits are used with new suppliers and suppliers that have a history of strong performance. Unannounced audits are used for lower-performing suppliers. When a supplier is asked to remediate a serious or persistent violation of the Code, unannounced audits enable REI to confirm whether remediation has occurred.

For new suppliers to our private brands, an audit is required prior to the start of production. To reduce audit fatigue for factories and to focus resources on driving sustainable change, REI will consider accepting an existing audit conducted within the last six months. Such audits must be conducted using standards similar to our own, and REI must receive the audit results directly from the organization conducting the audit. When a factory is a member of the International Labour Organization Better Work Programme, REI has agreed to accept those assessments in lieu of conducting our own audits.

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In rare situations, we exempt new factories from an initial audit. This determination is made when the supplier is operating in a very low-risk environment based on a risk matrix that includes the possibility of forced labor and human trafficking. Our decision is informed by the British Standards Institution’s reports on trends in child labor and forced labor and by the U.S. Department of Labor’s list of countries with increased risk of child labor or forced labor.5

Annually, REI reaudits at least 50% of finished goods factories. That group represents more than 75% of our production volume. The audit consists of 150 provision questions and eight best practices linked to the Factory Code of Conduct. Monitors are guided by a standard operating procedure. Dormitories and local subcontractors (e.g., embroidering facilities and screen-printing workshops) are included in the audit scope. The monitors also conduct interviews of the workforce. Worker interviews are conducted both on the factory floor and in private interviews outside the factory grounds.

A risk-based matrix is used to determine which factories will be audited each year. This assessment includes ownership structure (e.g., direct versus indirect vendor ownership), geographic trends (e.g., use of migrant labor), production processes (e.g., use of harsh chemicals), the factory’s management systems (e.g., prior audit results, third-party certifications) and other related variables.

Where possible, REI seeks to collaborate with other brands that share our high standards. We share audits through the Fair Factories Clearinghouse database. In certain instances, we also accept assessments from leading multistakeholder initiatives, including the International Labour Organization Better Work Programme.

The Sustainability department assesses the findings of every audit. Any “zero tolerance” finding, including forced labor, immediately triggers an escalation plan and prompt action. All other findings are prioritized for remediation, which is overseen by REI’s Sustainability staff. Factories are assessed according to their performance using an internal scorecard. A factory with persistent safety, ethics or labor issues that fails to continuously improve is rejected as a supplier and is no longer authorized to supply product to REI.

Beyond auditing, REI engages in numerous activities with our factories to prevent forced labor, child labor and human trafficking in accordance with our Code. These activities include continuous improvement programs and capacity-building initiatives.

REI does not currently audit or monitor factories producing goods for the approximately 1,300 REI wholesale vendors (external brands) whose products are sold by REI. REI’s Vendor Guide, however, requires that wholesale vendors apply standards comparable to those contained in REI’s Factory Code of Conduct in their production facilities.

Certification

REI recognizes the importance of protecting the human rights of workers who produce the raw materials for our products. While REI’s business impact is greatest amongst finished goods (“Tier 1”) manufacturers, we are committed to extending the principles of our Fair Labor Program throughout the supply chain. This includes multiple avenues of engagement with material (“Tier 2”) suppliers.

In most instances, the primary materials used in REI's privately branded products are nominated directly by REI. We maintain working relationships with these Tier 2 suppliers, including periodic visits from REI Sustainability staff. These suppliers receive the REI Factory Code of Conduct annually and are required to acknowledge receipt.

Where our Tier 1 suppliers are responsible for sourcing materials on REI's behalf, they are required to certify that the provisions in the REI Factory Code of Conduct are extended to subcontractors and Tier 2 material suppliers. Specifically, REI requires:

Vendors/factories must maintain current, accurate, and sufficiently-detailed records to substantiate their compliance. These documents must be made available on request to REI employees or anyone acting on behalf of REI. Such documents should include: (i) terms and conditions of employment from hiring to termination; (ii) personnel files on each employee reflecting proof of age; (iii) working hours and payroll records going back 12 months; (iv) local health and safety evaluations; (v) employee grievances and suggestions and employer responses; (vi) documentation of exemption from local law.

If a Tier 1 supplier does not meet these expectations, REI will engage the supplier with a corrective action plan. Repeated failure leads to a termination of the business partnership.

While REI and the broader outdoor industry have made progress in engaging Tier 2 material suppliers on human rights, we recognize that we have significant work ahead of us. In order to increase scale and consistency in Tier 2 engagement, REI is active in multistakeholder initiatives designed to extend our reach into the supply chain and the adoption of best practices.

One such initiative is the Social and Labor Convergence Project (SLCP), an initiative led by the world's leading manufacturers, brands, retailers, industry groups, governmental organizations, service providers and civil society organizations. REI is a founding member of this endeavor, which seeks a common assessment framework and data collection system for social compliance audits in the apparel and footwear sectors. The framework is designed to replace proprietary tools, providing a standard-agnostic tool and verification methodology to collect relevant and essential data on critical issues, including child labor, forced labor, occupational health and safety, hours of work and wages. This will support brands and manufacturers through reduced duplication of audits, opportunities to consistently measure continuous improvement and increased transparency. Additionally, the efficiencies of the SLCP model will help brands such as our efforts across both Tier 1 and Tier 2 supply chains. In 2017, we piloted prototypes of the assessment methodology and are launching the final version in 2018.

A similar initiative in the bicycle supply chain is the World Federation of the Sporting Goods Industry (WFSGI) Responsible Sport Initiative (RSI). The WFSGI is creating a standardized social and environmental audit protocol designed for the bicycle industry’s unique structure and manufacturing processes. The RSI protocol addresses ILO conventions, including forced labor, child labor, nondiscrimination, and harassment or abuse. Brands participating in the initiative, including REI’s privately branded bicycles Co-op Cycles™, agree to adopt the audit scope and share responsibility for arranging audits and remediating findings. For suppliers, this reduces audit fatigue and focuses efforts through a single point of engagement. As with the SLCP, the

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efficiencies gained through the RSI allow REI and other brands to expand our efforts into the upstream subcomponent supply chains.

Internal Accountability

REI’s Fair Labor Program is governed by the REI Fair Labor Oversight Committee, a group of six senior leaders chaired by our Vice President General Counsel. The primary duties of the committee are to (i) provide executive level oversight of the program, (ii) establish the operating principles and the scope of the program, (iii) ensure independence and appropriate rigor in auditing and major decisions, and (iv) report periodically to the Audit and Finance Committee of the Board of Directors.

The program is executed by the Sustainability department, which includes staff based at REI’s headquarters in Kent, Washington and our office in Shenzhen, China. These staff are responsible for overseeing factory audits and addressing any findings of noncompliance, including those related to forced labor and human trafficking.

For REI, forced labor and human trafficking fall under our “zero tolerance” policy. Zero tolerance findings trigger an escalation process in which the program staff notify the Fair Labor Oversight Committee. In the event of a potential violation, REI promptly addresses the issue with the supplier and sets expectations, based on requirements outlined in the REI Zero Tolerance Policy for how the situation is to be addressed.

We conduct unannounced audits to confirm that the supplier has addressed and remedied the potential violation. If a supplier does not correct the violation, we end the relationship with that supplier. We may also share information on the situation with other brands doing business or considering a prospective partnership with that entity, should we determine that such sharing is in the service of the factory workforce.

REI understands the importance of eradicating slavery and human trafficking. To date, we have never encountered a violation related to slavery or trafficking in any of our supplier facilities.

Training

Education and communication are vital to the successful execution of our Fair Labor Program. A thorough understanding of the program allows key stakeholders to successfully support the co-op’s requirements and spread awareness of critical issues. For this reason, training is an integral component of the Fair Labor Program—particularly for REI staff working directly with the suppliers of our privately branded products.

All REI staff who visit manufacturers for business are trained to identify signs of forced labor and other workforce risks. This training is part of new-employee onboarding. REI has also developed an internal online survey, the Snapshot, used by REI employees when visiting factories. It assists in identifying notable concerns or changes since the last audit. Results from the Snapshot are reviewed by the Sustainability department and can be uploaded to the Fair Factories Clearinghouse for records maintenance and the creation of a corrective action plan.

REI’s Sustainability department conducts periodic trainings on persistent and emerging issues. Training materials are developed in partnership with multistakeholder organizations, including the Sustainable Apparel Coalition, the Outdoor Industry Association and the Retail Industry Leaders
Association. These materials are made available as needed to internal business units, including the Fair Labor Oversight Committee.

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 at www.rei.com/stewardship.
Appendix A: REI Factory Code of Conduct

FACTORY CODE OF CONDUCT
RECREATIONAL EQUIPMENT, INC.

REI is committed to promoting fair, safe, and non-discriminatory working environments for the workers producing our products. The REI Factory Code of Conduct (Code) supports this commitment and defines requirements for doing business with REI. Our Code standards are based on International Labour Organization principles and internationally-accepted fair labor practices. Where industry or REI standards are higher than required by law, employers will meet the higher standards. REI monitors compliance to these standards and promotes a model of continuous improvement. REI encourages our manufacturing partners to take ownership of their social compliance programs.

TRANSPARENCY Employers must provide REI with open and forthright communication about their business practices. This includes maintaining and providing, upon request, accurate and complete payroll and employee records and full disclosure of locations producing REI goods.

NON-DISCRIMINATION Employers will be considered for positions on the basis of their qualifications and abilities. Employers will not discriminate on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, social group, or ethnic origin.

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.

FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING Employers will recognize and respect the legal rights of employees to free association and collective bargaining. Where the right to freedom of association is restricted under law, employers will allow their employees to raise any job-related grievances they may have without penalty or threat of reprisal.

HOURS OF WORK Working hours will not exceed 60 hours per week on a regularly scheduled basis (except under exceptional unforeseen circumstances) and will comply with all applicable laws and regulations. Where overtime is required, workers must be compensated appropriately according to law. Workers will be entitled to one day off for every seven-day period worked.

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.

ENVIRONMENT Employers will comply with all applicable environmental laws and regulations and adopt credible, proactive measures to mitigate negative impacts on human health and the environment.

COMMUNITY Employers are encouraged to engage directly or through partnerships in projects that improve the social well-being of employees and their families in the local community.