



facing challenges
finding opportunities

2004 SOCIAL RESPONSIBILITY REPORT

Gap Inc.

“Project Swabhiman has helped me through personal difficulty. I learned a new skill — handwork which will be beneficial for me in the future — and I am earning money and have a bank account which helps me in saving money.”

Anita, 20 years old

On the cover: Women embroidering Old Navy shirts at the Project Swabhiman social welfare home, Delhi, India, February 2005.

Founded in 2003 with support from Gap Inc., Project Swabhiman is a joint effort with the Delhi government’s Social Welfare Department and two local non-governmental organizations, Navjyoti and Partners in Change, to help women who have been victims of domestic violence.

The program offers participants shelter, support services and job training, and provides them with a clean and safe work environment in which the intricate garment handwork the region is known for can be produced under ethical conditions.

The name “Swabhiman” was chosen by the women participating in the project. It is Hindi for “self-respect, self-pride and dignity.”

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We've taken important steps toward safer conditions and better treatment for workers in garment factories, but the social responsibility issues across the industry remain immensely complex.

From Paul Pressler President and Chief Executive Officer, Gap Inc.

In the days after we released our first social responsibility report last year, it wasn't easy to see headlines like, "Gap admits factory abuses."

But this was more than offset by positive responses from the media, employees and other stakeholders who told us how much they appreciated our candor – and how they wanted to work with us to address the challenges described in the report.

Their response renewed our commitment to improving garment factory conditions, and reinforced our belief that talking about challenges is an important step toward resolving them.

Of course, we know that driving change of this magnitude isn't easy. We've taken important steps toward safer conditions and better treatment for workers in garment factories, but the social responsibility issues across the industry remain immensely complex.

I'm optimistic, however, that progress in our industry over the next decade will be more profound than anything we've seen, including improved labor standards, factory conditions and business practices – because ethical sourcing represents a better way of doing business in a global economy.

That doesn't mean we expect our efforts to create a competitive advantage. While ethical sourcing is an essential part of the long-term growth and sustainability of our business, our goal is to help improve conditions across the apparel industry as a whole. And we know that's not something we can do alone.

Over the past year, we've learned the power of collective engagement, and of open, honest discussion about the issues that we and many other companies face. As such, we have been expanding our participation in collaborative efforts.

In Cambodia, for example, we continue to support the International Labor Organization's (ILO) factory monitoring and training efforts, which, according to a World Bank survey, are helping the country compete more effectively in the international apparel market. And we recently partnered with the International Finance Corporation's Mekong Private Sector Development Facility (IFC/MPDF) to launch a new managerial skills training program for factory supervisors.

The elimination of trade quotas represents an historic shift in our industry, changing how apparel retailers source their products. This creates new challenges, but it also creates new opportunities to build strategic relationships with garment manufacturers who share our commitment and values.

In 2004, I visited one such garment manufacturer in India. His factories provide workers with childcare facilities, free eye care and access to medical services. And he has incorporated sound environmental practices, like rainwater harvesting, into his operations. He sees that social responsibility is good business, and, as a result of his efforts, his turnover rates are low and his productivity is high.

We know that, unfortunately, this example isn't the norm. So we remain committed to working with garment manufacturers to help them improve.

For instance, we are partnering with the China Association of Enterprises with Foreign Investment (CAEFI) and several leading companies to form the Better Workplace Foundation in China. This group maintains an ongoing discussion about labor laws with the Chinese government, and will help factory owners understand how better labor standards can make their businesses stronger.

Examples like this are encouraging and reinforce that making progress requires going beyond what's expected. That's why we're continuing to push the boundaries of what's possible, piloting new programs and learning along the way.

These same principles of exploring, collaborating and continuous learning shape our efforts across the company and have become part of our culture.

Most important, we know that our success depends on our ability to engage and inspire our more than 150,000 employees. We are committed to listening to their needs, providing an inclusive environment and investing in their training and development so they can build rewarding careers with us.

Community giving is also deeply embedded in our company's values. In 2004, our employees spent approximately 73,000 hours volunteering in their communities. To encourage their involvement, we provide time off work to volunteer, as well as monetary donations to the organizations they support.

Following the tsunami in South Asia, we reached out to support garment workers and their communities in the region. Gap Foundation double-matched employee contributions and donated additional funds to contribute \$2.3 million to relief efforts. I just met with our team which has been on the ground in Sri Lanka and India ensuring that these funds go to the areas where they'll do the most good over the long-term.

We're constantly finding new ways to reduce our impact on the global environment through improvements in how we source, distribute and sell our products. Old Navy, for example, recently redesigned its hangers to make them easier to recycle and will introduce a new recycling program later this year. And last year, we piloted a new water quality program for denim laundries.

This report highlights the progress we're making in several important areas. At the same time, it underscores the challenges we're facing and some of the opportunities we're finding to improve the way we do business and collaborate on projects that can become models for lasting change in our industry.

Thank you for taking the time to learn more about our efforts. We look forward to sharing more information in the years to come.



Fiscal Year 2004 In Review

COMPANY PROFILE

Gap Inc. is a leading international specialty retailer offering clothing, accessories and personal care products for men, women, children and babies under the Gap, Banana Republic and Old Navy brands, with a fourth brand, Forth & Towne, launching in 2005. Founded in 1969 by Doris and Don Fisher in San Francisco, California, Gap Inc. has grown from a single store with a handful of employees to approximately 3,000 stores in the United States, United Kingdom, Canada, France and Japan, with more than 150,000 employees. In the United States, customers may also shop the company's online stores.

A public company, Gap Inc. is traded on the New York Stock Exchange and is listed on the Calvert Social Index, Domini 400 Social Index, Dow Jones Sustainability Index, and the FTSE4Good US 100 and FTSE4Good Global Indices.

Below, we provide a summary of our financial results and an overview of our accomplishments and goals in key areas of social responsibility.

FINANCIAL PERFORMANCE

In 2004, Gap Inc. continued to focus on offering trend-right product and delivering it through engaging, easy-to-shop environments. We saw an 11 percent increase in earnings, and our commitment to strong financial management helped restore the company's corporate credit and debt ratings to investment-grade this year.

	2003	2004
Net sales	\$15.85 billion	\$16.27 billion
Net earnings	\$1.0 billion	\$1.1 billion
Net earnings per share	\$1.09	\$1.20

FORGING SUSTAINABLE SOLUTIONS IN OUR SUPPLY CHAIN (PAGES 8 – 41)

Last year, we continued to take a multi-pronged approach to improving labor standards in our supply chain. In addition to inviting Social Accountability International (SAI) and Verité to evaluate our factory monitoring program, we explored ways to further integrate labor standards directly into our supply chain operations, expanded our stakeholder outreach and increased our participation in multi-stakeholder initiatives.

	2003	2004
Factories inspected ¹	94%	99.9%
Factories rejected	16%	15%
Number of factory revocations due to non-compliance with Code of Vendor Conduct	136	70

Going forward, we will focus on a four-part strategy to improve working conditions: monitor factories, integrate labor standards into our business practices, collaborate with partners to drive systemic, industry-wide change, and communicate openly about our goals, successes and challenges. Areas of particular importance include evolving toward more thorough inspections and sustainable solutions that address root causes, building greater vendor ownership of compliance, and working toward consistency within the industry through greater collaboration and standardization.

¹ Garment factories that were approved for production for all of fiscal year 2003 and all of fiscal year 2004, respectively.



EMPLOYEES (PAGES 42 – 45)

We are dedicated to making Gap Inc. a place where people can build their careers. In 2004, our Executive Leadership Team introduced a new cultural framework anchored in our core values. We also launched a mandatory ethics course and rolled out a new program designed to help employees maximize the benefits we offer. In the coming year, we will focus on further enhancing our diversity programs and exploring new ways to retain and develop our full-time and part-time employees.

COMMUNITY INVOLVEMENT (PAGES 46 – 47)

Gap Foundation helped drive record levels of employee volunteerism last year. With an emphasis on programs that serve children, youth and families, we provided millions of dollars in cash grants and in-kind donations to organizations in the communities where we work, live and source our products. After the December 2004 South Asia tsunami, we double-matched employee contributions and pledged \$2.3 million for relief efforts.

	2003	2004
Value of cash donations	\$6 million	\$8 million
Value of in-kind donations	\$12 million	\$25 million
Employee volunteer hours	21,965	72,937

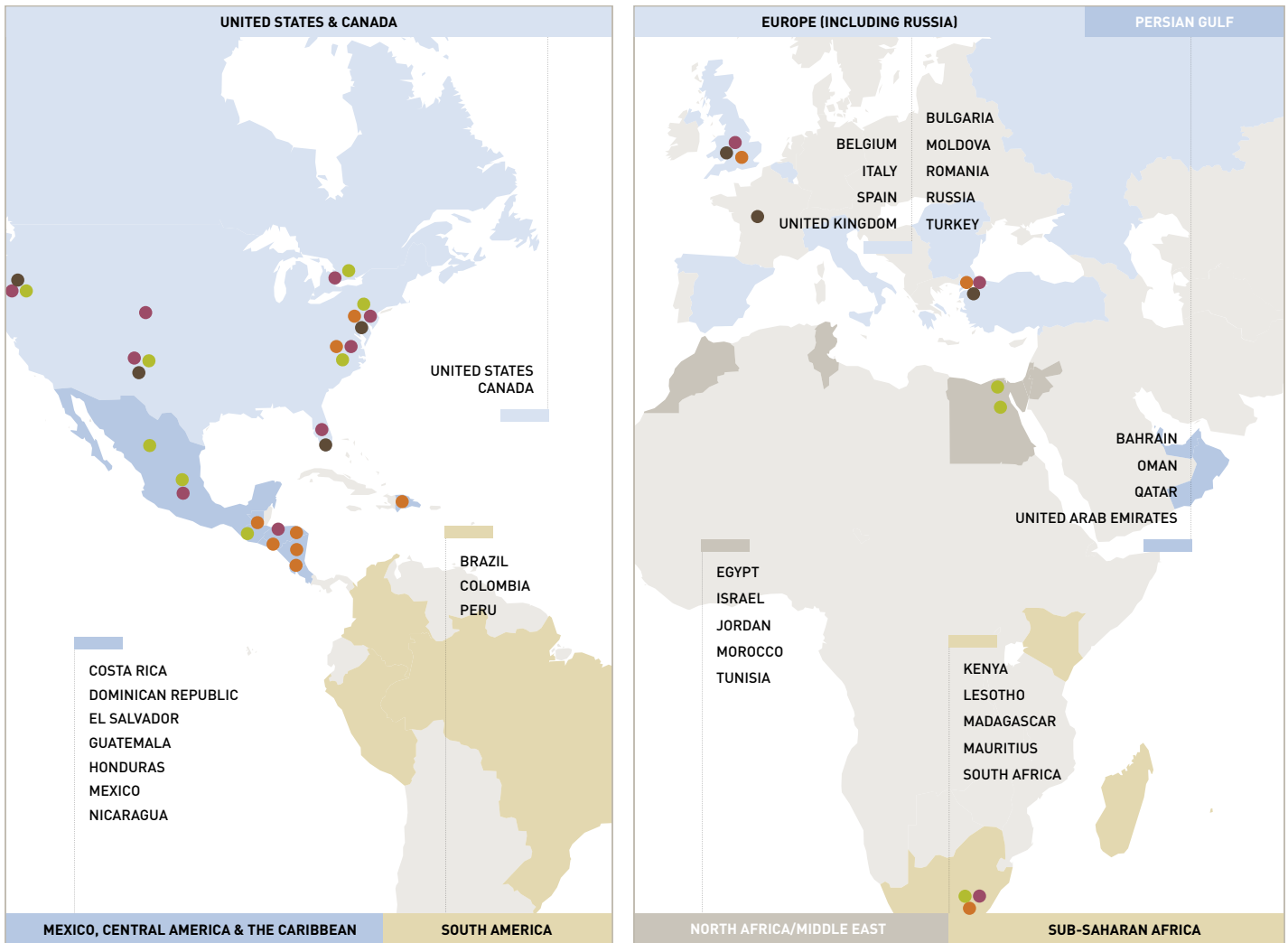
One of our biggest opportunities to increase the impact we have on communities is energizing volunteers at the retail store level. We are piloting a localized volunteer and grantmaking effort in our Denver-area stores and hope to apply learnings from this experience to other regions.

ENVIRONMENT, HEALTH AND SAFETY (PAGES 48 – 51)

In 2004, we were pleased to see reductions in average store energy consumption and rates of employee injury. We conducted our first high-level environmental assessment to identify the environmental impacts of our operations, which clarified the need to focus on four key areas: packaging, energy consumption, waste and recycling, and water quality.

	2003	2004
Average store energy consumption	32.35 kWh/ft ² per year	31.56 kWh/ft ² per year
Employee rate of injury per 200,000 hours worked	4.86	4.43

This year, our Risk Management and Product Integrity teams will continue their efforts to enhance the safety of our work environments and products, while our environmental efforts will concentrate on the four areas identified in the assessment we conducted last year. As a participant in the U.S. EPA’s Climate Leaders program, we are also committed to driving further reductions in our greenhouse gas emissions.



REGIONAL BREAKDOWN OF SOURCING COUNTRIES AND SIGNIFICANT GAP INC. SOCIAL RESPONSIBILITY INITIATIVES

CATEGORIES

- Ethical Sourcing
- Employees
- Community Involvement
- Environment

GLOBAL

- Business Coalition for Capacity Building (BCCB)
- Business Leaders Initiative on Human Rights (BLIHR)
- MFA Forum
- United Nations Global Compact
- Gap Inc. employee programs¹

BANGLADESH

- Dhaka: Water quality pilot program
- Dhaka: ILO training program on better working conditions

CAMBODIA

- Phnom Penh: Water quality pilot program
- Supervisory Skills Capacity Building (SSCB) program
- Sewing a Healthy Future partnership with CARE

CANADA

- Brampton, ON: Corporate employee volunteerism
- Brampton, ON: Gap Foundation grants and donations
- Brampton, ON: Local office environmental programs

CHINA

- Dongguan: Water quality pilot program
- Guangzhou: Impact/HKPC productivity program
- Hong Kong: Corporate employee volunteerism
- Hong Kong: Gap Foundation grants and donations
- Hong Kong: Local office environmental programs
- Shanghai: Impact/HKPC productivity program
- Tianjin: Water quality pilot program
- Worker trainings on labor law conducted by Mingyu Chen

¹ Gap Inc. has programs to attract, develop, reward and engage employees everywhere we do business, including the major hubs of operations indicated on this map.

COSTA RICA

- San Jose: Continuous Improvement in the Central American Workplace (CIMCAW)

DOMINICAN REPUBLIC

- Santo Domingo: CIMCAW

EGYPT

- Cairo: Water quality pilot program
- Port Said: Water quality pilot program

EL SALVADOR

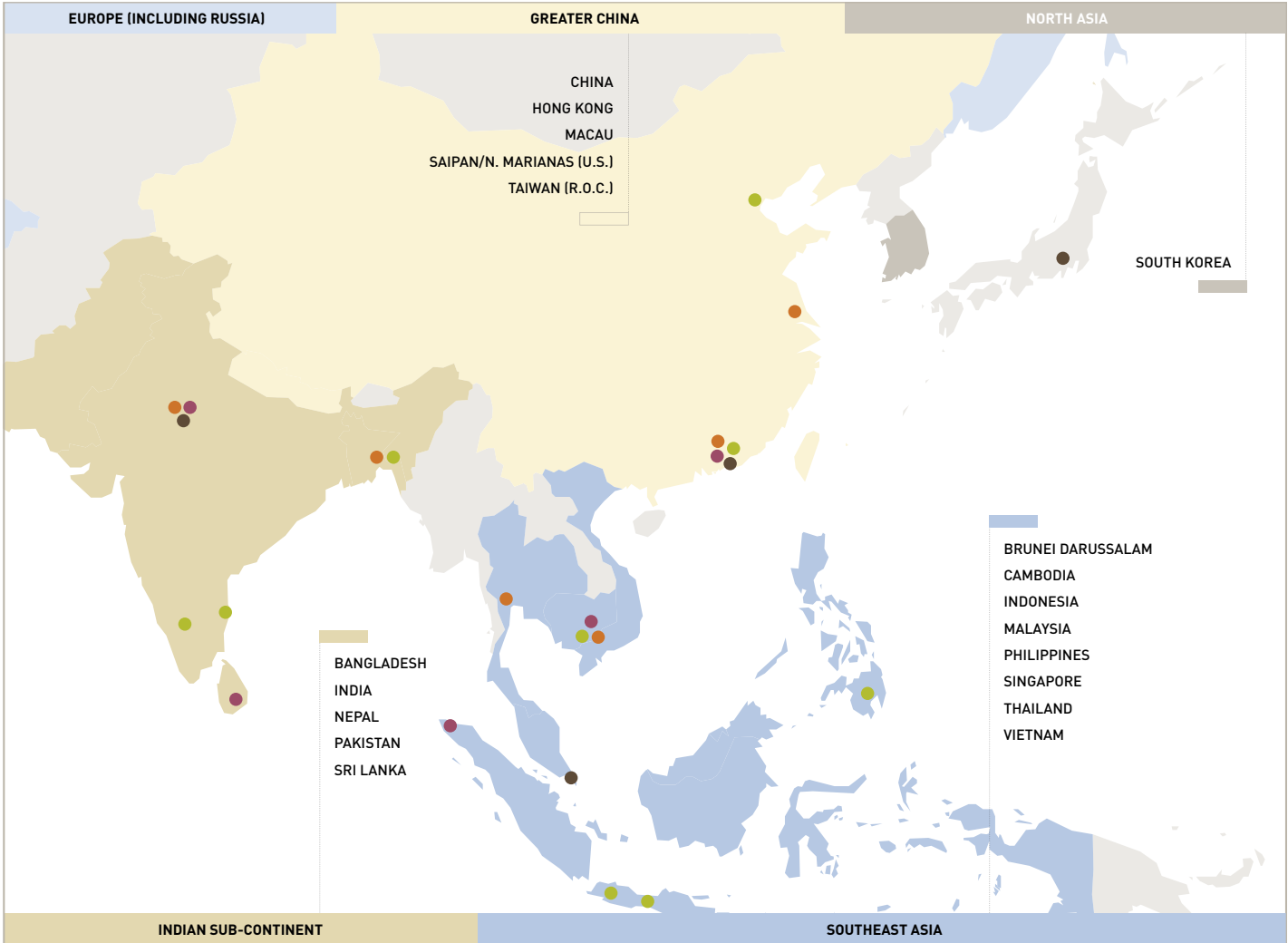
- San Salvador: Independent Monitoring by Grupo de Monitoreo Independiente de El Salvador (GMIES)
- San Salvador: CIMCAW

GUATEMALA

- Guatemala City: Independent Monitoring by the Commission for the Verification of Corporate Codes of Conduct (COVERCO)
- Guatemala City: Continuous Improvement in the Guatemalan Workplace (CIMGUAW)
- Guatemala City: Water quality pilot program

HONDURAS

- San Pedro Sula: Community Corps volunteers
- San Pedro Sula: Gap Foundation grants and donations
- San Pedro Sula: Independent Monitoring by the Independent Monitoring Team of Honduras (EMIH)
- Tegucigalpa: CIMCAW



INDIA

- **Bangalore:** Rainwater harvesting program
- **Bangalore:** Water quality pilot program
- **Chennai:** Water quality pilot program
- **Delhi:** ETI working group on homeworkers
- **Delhi:** National Productivity Council of India productivity program
- **Delhi:** Project Swabhiman
- **Delhi:** Project Swabhiman
- **Delhi:** Gap Foundation grants for tsunami relief

INDONESIA

- **Sukoharjo:** Water quality pilot program
- **West Java:** Water quality pilot program
- **West Java:** Gap Foundation grants for tsunami relief

LESOTHO

- **Maseru:** Partnership with CARE on HIV/AIDS
- **Maseru:** Global Training Partnership (GTP)
- **Maseru:** Water quality pilot program

MEXICO

- **Gomez Palacio:** Water quality pilot program
- **Irapuato:** Water quality pilot program
- **Puebla:** Community Corps volunteers
- **Puebla:** Gap Foundation grants and donations

NICARAGUA

- **Managua:** CIMCAW

PHILIPPINES

- **Muntinlupa:** Water quality pilot program
- **Valenzuela:** Water quality pilot program

SRI LANKA

- **Sri Lanka:** Gap Foundation grants for tsunami relief

THAILAND

- **Bangkok:** Global Compliance Annual Conference training

TURKEY

- **Istanbul:** Bi-Coastals management systems training
- **Istanbul:** Corporate employee volunteerism
- **Istanbul:** Gap Foundation grants and donations
- **Istanbul:** Joint Initiative on Corporate Accountability and Workers' Rights

UNITED KINGDOM

- **London:** Ethical Trading Initiative (ETI)
- **London:** ETI working groups on purchasing practices and homeworkers
- **London:** November 2004 multi-stakeholder meeting
- **London:** Corporate employee volunteerism
- **London:** Gap Foundation grants and donations
- **Rugby:** Corporate employee volunteerism
- **Rugby:** Gap Foundation grants and donations

UNITED STATES

- **U.S.:** Community involvement in the U.S. includes employee volunteerism and Gap Foundation grants and donations
- **U.S.:** Environmental programs at corporate campuses
- **U.S.:** Public Reporting Working Group
- **Albuquerque, NM:** Community Corps volunteers
- **Denver, CO:** Colorado in Action
- **Denver, CO:** Gap Foundation grants and donations
- **San Francisco, CA:** BSR Apparel Water Quality Working Group
- **New York, NY:** Social Accountability International (SAI)
- **Washington, D.C.:** September 2004 multi-stakeholder meeting



forging sustainable solutions

Our Approach to Creating Lasting Change

The magnitude and complexity of the challenges we face are not an excuse for inaction. We recognize and embrace our responsibility to take a leadership role in improving conditions in the world's garment factories.

Photo:
Executive Vice President,
Chief Compliance Officer
and General Counsel, Lauri
Shanahan, with Vice Presi-
dent, Social Responsibility,
Dan Henkle.

As we prepared this report, we had a chance to reflect on how much has changed since we started working to improve garment factory conditions more than a decade ago.

For most of the 1990s, we concentrated on policing our manufacturers. We developed our own set of detailed labor standards and created an internal team to enforce them.

Today, factory monitoring remains a vital part of our strategy to improve working conditions in the garment industry. Our Vendor Compliance Officers (VCOs) visited 99.9 percent of the factories that we approved for production for all 12 months of fiscal year 2004. And they partnered with factory management to improve operating practices and take corrective action on thousands of violations of our published labor standards.

Over time, though, we've come to realize that monitoring is not enough. Factory inspections make it possible for us to identify problems and measure progress against goals. But ultimately, driving lasting, meaningful change across the industry as a whole requires a broader, more integrated approach.

In part, that's because our industry is so large and fragmented. As big as we are, we account for just a small fraction of garment production worldwide. We don't send teams to monitor the many factories where we don't have production. And even in factories where we do have orders, enforcing our Code of Vendor Conduct (COVC) can be difficult. In most cases, we are just one of several customers, and it's often fairly easy for garment manufacturers to replace us if we revoke approval and walk away.

ROOT CAUSES OF POOR WORKING CONDITIONS

The bigger problem, though, is that the root causes of poor working conditions are so varied and complex. As the table below illustrates, problems with labor standards can result from a wide range of factors that are hard to isolate and address.

Even the most conscientious garment manufacturers can inadvertently contribute to problems through weak management skills, outdated operations or a tendency to take on too much work. Buyers like us can have a negative impact on working conditions through inefficient purchasing practices or unreasonable demands. And underlying everything are systemic problems – like economic underdevelopment and a lack of law enforcement – that put constant pressure on wages and chronically undermine efforts to protect the rights of workers.

FORGING SUSTAINABLE SOLUTIONS

The magnitude and complexity of the challenges we face are not an excuse for inaction. As we emphasized in last year's report, we recognize and embrace our responsibility to take a leadership role in improving conditions in the world's garment factories. The realities of our industry and broader operating environment, however, do have important implications for the strategies we use to drive change.

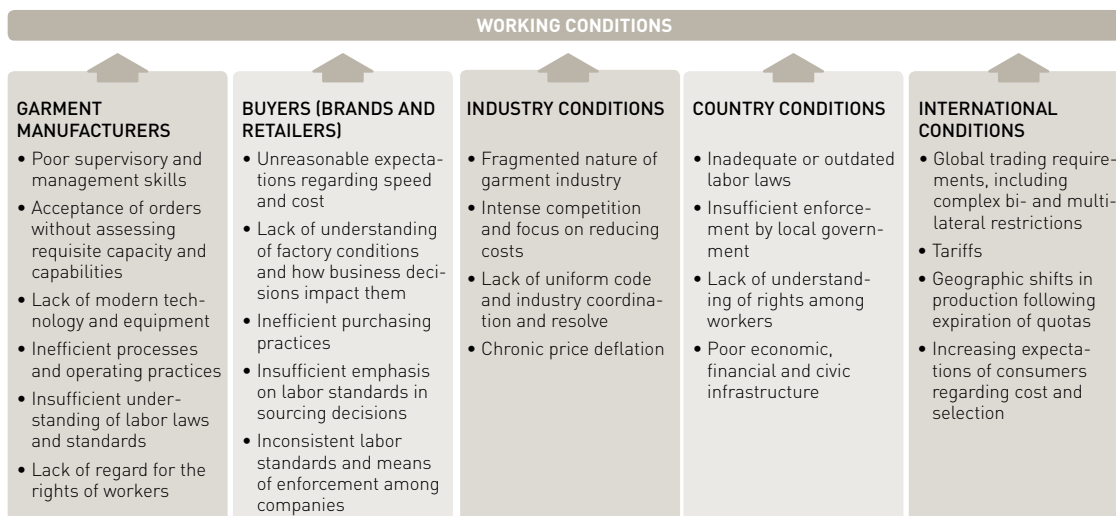
Over the past few years, we have been migrating toward a more collaborative, integrated approach in which we work closely with partners in government, civil society, trade unions and the commercial sector to develop broad solutions that address the underlying causes of poor working conditions and stand the test of time.

Our strategy for forging sustainable solutions focuses on four key priorities:

Inspect & Measure

We are leveraging both our experience and the expertise of external parties to make our monitoring program a more effective tool for identifying problems and measuring progress. We want to be able to bring the same rigor and consistency to factory monitoring that we apply to other aspects of our business, like tracking inventory flow or recording financial results.

FACTORS CONTRIBUTING TO POOR WORKING CONDITIONS IN GARMENT FACTORIES



Last year, we took an important step toward that goal when Social Accountability International (SAI) and Verité conducted thorough assessments of our monitoring program and inspection protocols. We're already good at catching most violations. But their insights are helping us dive beneath the surface to identify serious problems that are harder to detect – like discrimination, harassment, abuse and violations of the right to freedom of association. Better monitoring data will give us a more accurate picture of working conditions, which, over time, will help us make more informed sourcing decisions, provide better guidance to our manufacturers and track improvement more effectively.

Integrate

We are hoping to facilitate better compliance by improving supply chain operations and embedding labor standards directly into our business practices.

Ultimately, we believe garment manufacturers, most of whom are multi-national corporations in their own right, must take ownership of and responsibility for conditions in the factories they own and operate. To encourage them to take that responsibility seriously, we're developing a formal tool that will enable us to factor in a garment manufacturer's compliance record – along with criteria like cost, speed, quality and innovation – when deciding where to place orders.

At the same time, we recognize that our business practices can have an impact on compliance, and we are actively exploring better ways to work with our manufacturers. To avoid contributing to excessive overtime, we're making a greater effort to ensure that garment manufacturers have accurately assessed their capacity and capabilities before we place orders with them. We are working to reduce inefficient purchasing practices such as rush orders and last minute changes. And we are continuing to partner with garment manufacturers to help them increase productivity and improve compliance through better processes and more sophisticated management techniques.

Collaborate

We continue to partner with stakeholders from all sectors to address the systemic problems that contribute to poor working conditions in our industry.

Over the past few years, we've worked closely with governments, NGOs, trade unions, other brands and retailers, and garment manufacturers on dozens of pilot programs in areas ranging from worker education and independent monitoring to management training and productivity enhancement.

Going forward, we will continue to participate in localized pilots that target specific issues. We will also begin placing more emphasis on leveraging lessons and relationships from these programs to support large-scale initiatives that help create the legal, economic, civic and regulatory frameworks necessary for sustainable change across our sourcing markets and the industry as a whole. Three of our most important priorities include: encouraging the development and implementation of a uniform code of conduct and consistent standards of enforcement; supporting public policy that promotes economic development and the enforcement of labor laws; and helping to mitigate the impact of post-quota consolidation.

FORGING SUSTAINABLE SOLUTIONS

- **Inspect & Measure:** Make monitoring a more effective tool for identifying problems, managing remediation and measuring progress
- **Integrate:** Embed compliance directly into business practices and supply chain operations
- **Collaborate:** Work with external stakeholders to address systemic issues that have made poor working conditions endemic in the garment industry
- **Communicate:** Build a foundation for ongoing growth and collaboration through transparency and stakeholder engagement

Communicate

We are concentrating on building a strong foundation for continued growth and collaboration through greater transparency around our business practices, our goals and the challenges we face.

To quote U.S. Supreme Court Justice Louis Brandeis, we believe that a “bright light is the best disinfectant.” The more open and honest we can be about conditions and challenges, the more helpful we can be in addressing them.

This report and the one we released last year are reflections of that belief. But we know it is essential to communicate and learn on a continuous basis.

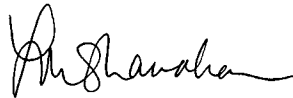
You’ll see examples of this commitment throughout the pages that follow. On page 52, for instance, members of the Public Reporting Working Group, who encouraged us to release last year’s report, share some of their thoughts on this report. On page 36, we discuss learnings from stakeholder outreach sessions we conducted last year in Washington, D.C. and London. And on page 37, we describe some of the work we are doing with the Global Reporting Initiative (GRI) to develop consistent reporting standards that will make it possible to compare performance across companies and over time.

THE ROAD AHEAD

As signatories to the United Nations Global Compact, we are committed to ensuring that all aspects of our business are conducted with respect for human rights. The more we work to improve labor conditions, the further we realize we have to go. But by improving our ability to identify violations, embedding labor standards directly into our business practices and partnering effectively with stakeholders to address systemic problems, we believe we can help drive lasting change not only in our approved factories but across the entire garment industry.

The table on the next page provides a summary of our progress over the past year. On the opposite page, we outline our key goals through 2006.

We’ll be holding ourselves accountable for these goals as we move forward. We invite you to do the same by sharing your questions and comments with us through our corporate web site at www.gapinc.com.



Lauri M. Shanahan, Executive Vice President,
Chief Compliance Officer and General Counsel



Dan Henkle, Vice President, Social Responsibility

2004 GOALS

AREA OF FOCUS	GOAL	PROGRESS	SELF-ASSESSMENT
Inspect & Measure	Participate in SAI pilot compliance program evaluation	<ul style="list-style-type: none"> Participated in evaluation by Social Accountability International (SAI) (p.26) Participated in Verité assessment of training needs (p. 27) 	Achieved
Integrate	Identify supply chain practices that may impact factory working conditions	<ul style="list-style-type: none"> Identified inefficient purchasing practices and launched pilot programs to drive improvement (p. 32) Began developing sourcing scorecard that integrates compliance data into sourcing decisions (p. 30) Began developing a production scorecard for garment manufacturers to evaluate and provide feedback on our business practices (p. 33) Held Vendor Summit to begin building closer relationships and set expectations among top garment manufacturers (p. 29) Expanded efforts to help our garment manufacturers improve management and operating practices (p. 31) 	Achieved
Collaborate	Support multi-stakeholder efforts to develop uniform code of conduct	<ul style="list-style-type: none"> Began efforts to reconcile Gap Inc.'s Code of Vendor Conduct (COVC) with Ethical Trading Initiative (ETI) and SAI standards (p. 38) Participated in multi-brand group to align practices in India Participated in Joint Initiative on Corporate Accountability and Workers' Rights (p. 38) 	In progress
	Broaden worldwide stakeholder engagement and initiatives	<ul style="list-style-type: none"> Participated in several key multi-stakeholder initiatives (MSIs), including ETI, the Business Leaders Initiative on Human Rights (BLIHR) and the MFA Forum (p. 37) Continued collaborative efforts with the International Labor Organization (ILO) and other organizations in Cambodia, including a new program with the Mekong Private Sector Development Facility to train factory supervisors (p. 41) Helped launch two capacity-building and social dialogue programs in Central America – Continuous Improvement in the Guatemalan Workplace (CIMGUAW) and Continuous Improvement in the Central American Workplace (CIMCAW) (p. 40) Continued participation in the Business Coalition for Capacity Building (BCCB) (p. 40) Invited AccountAbility to conduct training for compliance management team to develop better stakeholder engagement skills based on the AA1000S standard 	Achieved
Communicate	Not stated in last year's report	<ul style="list-style-type: none"> Published first social responsibility report Hosted stakeholder outreach sessions in the U.S. and U.K. (p. 36) Increased participation in forums related to social responsibility and factory conditions Continued ongoing dialogue with individual stakeholders to share learnings, identify issues and develop strategies 	Achieved

2005–06 GOALS

AREA OF FOCUS	GOAL	ACTION PLAN
Inspect & Measure	Review COVC to address deficiencies and increase alignment with other codes	<ul style="list-style-type: none"> • Conduct a comparative analysis with the SA8000 standard and ETI Base Code • Outline plan to address major inconsistencies
	Review monitoring protocol for more efficient and effective use of compliance resources	<ul style="list-style-type: none"> • Evaluate scope, duration, staffing levels and frequency of factory audits in context of feedback from SAI and Verité • Evaluate opportunities to streamline monitoring efforts through greater collaboration with other buyers and third-party auditors
	Develop a new data collection system	<ul style="list-style-type: none"> • Develop system that substantially improves ability to record, analyze and report data in meaningful ways
	Further enhance external auditor training for compliance team	<ul style="list-style-type: none"> • Identify externally-recognized training organizations • Conduct additional issue-specific training on detection of issues such as discrimination and freedom of association
Integrate	Integrate compliance performance metrics into sourcing scorecard	<ul style="list-style-type: none"> • Work with sourcing to include compliance performance as a factor in overall factory ratings
	Develop formal internal training to address purchasing practices issues	<ul style="list-style-type: none"> • Conduct business simulation training that highlights the impact of purchasing decisions on compliance, quality and cost
	Explore options for a more systematic training program for garment manufacturers and factories	<ul style="list-style-type: none"> • Identify training opportunities • Expand vendor ownership program to additional factories
	Determine how to utilize recommendations of MFA Forum	<ul style="list-style-type: none"> • Develop strategy to guide responsible decision-making in post-quota environment
Collaborate	Help develop standardized indicators for monitoring and reporting in the apparel and footwear industry	<ul style="list-style-type: none"> • Continue support for the Joint Initiative on Corporate Accountability and Workers' Rights and explore other opportunities to accelerate and expand reach of work • Participate in the Global Reporting Initiative's (GRI) working group to develop an apparel and footwear sector supplement
	Influence expansion of programs that lead to sustainable improvements in factory working conditions	<ul style="list-style-type: none"> • Influence garment manufacturers to implement factory improvement programs • Explore opportunities to expand Cambodia ILO model to other countries
	Improve ability to bring issues to the surface through strengthening of stakeholder engagement at the local level	<ul style="list-style-type: none"> • Continue developing expertise of compliance management team on stakeholder engagement and capacity building • Identify local organizations with capacity to deliver factory-based training and MFA Forum-related work
	Develop deeper understanding of homeworker challenges	<ul style="list-style-type: none"> • Continue participating in the ETI working group on homeworkers
Communicate	Increase transparency into Gap Inc. business practices	<ul style="list-style-type: none"> • Evaluate reporting strategy to ensure that communication is meaningful to stakeholders and provided at appropriate intervals • Continue efforts to develop metrics that can be used to compare performance over time
	Expand understanding of industry issues and stakeholder priorities	<ul style="list-style-type: none"> • Continue stakeholder outreach sessions • Link local stakeholders to relevant global organizations to facilitate a coordinated approach to engagement at all levels



The Art of Factory Monitoring

We believe that “what gets measured gets managed.” Despite its imperfections, monitoring data is an important tool to help us assess our performance, understand factory conditions and improve our efforts over time.

Factory monitoring remains a key element of our efforts to improve working conditions in the apparel industry. On-site inspections give us first-hand insight into whether factories are adhering to the labor, health and safety standards in our Code of Vendor Conduct (COVC). This helps us measure performance, guide improvement and shape our long-term strategy.

Getting an accurate picture of factory conditions, however, is more difficult than it seems. In many ways, monitoring is more art than science.

A number of variables – ranging from the complexity of a violation to the level of trust among workers – can affect results. Nearly a decade after we formed our Global Compliance department, we are still exploring ways to better capture and measure the impact of our monitoring program.

The lack of consistent standards and enforcement mechanisms in our industry makes it virtually impossible to compare performance over time and across companies in a meaningful way. Just as Generally Accepted Accounting Principles (GAAP) took decades to evolve, we expect it will be years before the garment industry adopts a standardized approach to tracking, evaluating and reporting on factory compliance.

Still, we believe that “what gets measured gets managed.” Despite its imperfections, monitoring data is an important tool to help us assess our performance, understand factory conditions and improve our efforts over time.

DEVELOPING EFFECTIVE MONITORING

Our Global Compliance team fields more than 90 individuals around the world who are as diverse as the garment manufacturers from which we source. Most of them are Vendor Compliance Officers, or VCOs. They are the eyes and ears of our monitoring program. They spend their days visiting factories, conducting inspections, documenting violations of our COVC, and working with garment manufacturers and others to build capacity for greater compliance.

We aim to hire VCOs from the country or communities in which they work, since local knowledge greatly enhances their ability to detect issues and communicate with factory managers and workers. To ensure that our VCOs remain objective and focused on improving working conditions, the Global Compliance team sits outside of the sourcing organization and is not responsible for quality assurance or any other functions.

In addition to cultural understanding and independence, effective factory monitoring requires skill, training and experience.

Some compliance violations are simply easier to find than others. For example, it isn't hard to see if a factory has an adequate number of emergency exits on each floor. On the other hand, it requires much more skill and tenacity to determine if factory managers are deliberately disguising excessive overtime hours with false records or worker intimidation.

A VCO must look beyond the visible evidence in a factory and piece together information from a variety of sources – including time cards, production records, pay slips, broken needle logs and one-on-one conversations with workers. The more experienced the VCO, the more information – and violations – he or she is likely to uncover.

2004 FULL-TIME GLOBAL COMPLIANCE EMPLOYEES

REGION	# of full-time Global Compliance employees
Greater China	16
North Asia	5
Southeast Asia	16
Indian Sub-Continent	12
Persian Gulf ¹	0
North Africa & the Middle East	2
Sub-Saharan Africa	4
Europe (including Russia)	6
United States & Canada ²	21
Mexico, Central America & the Caribbean	9
South America	1
Total	92

1 The Persian Gulf region is covered by the Indian Sub-Continent team.

2 Includes corporate headquarters staff based in San Francisco.

MAKING SENSE OF MONITORING DATA

Differences within the industry

Because there is no single monitoring standard in the apparel industry, codes of conduct, frequency and scope of monitoring, and team training all vary widely across companies. As a result, monitoring data also varies widely.

Highly-skilled compliance monitors naturally find more problems than less-skilled monitors conducting cursory inspections – even in the same factories. Large, dedicated teams conducting thousands of inspections across a supply chain are likely to find more compliance issues than smaller teams monitoring a sampling of factories on a part-time basis. Their data reports look very different from one another, but the difference isn't necessarily in the factory conditions. It's in the amount of information gathered.

Differences among regions

On a smaller scale, we have faced similar challenges when we compare findings from our own VCO teams in different regions.



Sometimes this is due to regional differences in our sourcing base. Production naturally expands and contracts in different areas at different times. In any given year, we may approve a significant number of new factories in one country and experience low turnover in another. Since new factories tend to have a more limited understanding of our requirements than established factories, the level of turnover in a region is a significant factor in the overall level of compliance.

In other cases, our VCOs may approach their work slightly differently from region to region, depending on background, experience, and the political, economic, and social context in different countries. We maintain global policies and procedures that limit these differences, but at the same time, we must provide flexibility to accommodate local needs and priorities. In 2004, we noticed some regional variations in our monitoring and factory rating data that appeared to stem more from divergent team procedures than actual conditions on the ground. In 2005, we will be working to improve our global monitoring procedures to reduce these differences.

Differences from year to year

Just as we find differences between regions, we also face challenges when we try to compare our global data from year to year. As our VCOs gain more experience, they are often able to uncover more compliance violations. As a result, we've seen the total number of issues we find increase over time.

Does this mean that factory conditions are deteriorating? Or are we simply getting better at finding existing problems? Similarly, if we see a decrease in the number of issues from one year to the next, how do we know that factory conditions have really improved? How can we be sure that we didn't just miss something in our inspections?

We addressed this issue in 2004 when we invited SAI and Verité to conduct external reviews of our program. SAI examined our management systems and processes and audit planning, while Verité conducted a program and training needs assessment that included inspections of our approved facilities and a comparison of their findings with our own. We then asked both groups to conduct specialized training for our team in October 2004. SAI focused on the complex issues of freedom of association, discrimination and how to improve factory management systems, while Verité demonstrated ways to further improve our monitoring skills and support our vendor ownership goals.

After these training sessions, we saw an increase in the number of violations found by our VCOs during factory visits. Had the factories gotten worse? Probably not. More likely, the training helped improve our ability to find issues.

IMPROVING MONITORING DATA

Assessing factory performance over time is one of the most difficult tasks we face. Nevertheless, there are concrete steps we can take to refine and interpret monitoring data to give us meaningful insight into our performance and impact at the factory level.

In the absence of standardized monitoring protocols and training at the industry level, we can continue to standardize and improve our own internal policies and procedures. We can reduce differences in how our own country and regional teams do their jobs and introduce global training to reinforce the same baseline approach for everyone. We can also continue to seek external verification to ensure that we remain aligned with leading practices and perform to high standards.

We can also look at progress in different ways and recognize that it will occur at different rates – depending on the type of violation, the factory and the country. When we released our first report, many readers were surprised by all the problems in garment factories. We know change is possible, but it is likely to occur in stages and over time.

In the near term, progress is likely to mean that we find more violations, not less, especially in challenging areas such as discrimination and freedom of association. We hope that, as we work with fewer garment manufacturers for longer periods of time, these numbers will begin to level off and, eventually, decrease.

ASSESSING OUR MONITORING EFFORTS: HOW DID WE DO IN 2004?

Setting a bar for entry

Last year, we continued to require that all garment manufacturers and subcontractors pass our approval process before we placed any orders. This process, discussed in detail in our 2003 report, can take anywhere from a week to more than a year to complete. No garment production can be placed until the Global Compliance team has signed off.

Our 2004 approval rate was similar to our approval rate in 2003. We rejected 15 percent of the new factories we evaluated, compared with 16 percent in 2003, and evaluated 199 fewer new factories. Because the elimination of textile quotas earlier this year is allowing us to keep more of our production in currently approved factories, we had less need to bring new factories on line in 2004. For further information on the impact of post-quota consolidation on our manufacturing base, please see page 28.



IN HER OWN WORDS

Jyotsna Belliappa

Growing up in India in the last decade has been exciting. India is in the throes of change. The old order is changing, but the new order is not yet in place.

In 1999, my decision to become a Vendor Compliance Officer at Gap Inc. pulled me into this whirl of change.

Although I had worked previously with women's issues and sustainable community development on coffee plantations, I found the practices in the garment industry in urban Bangalore totally perplexing. It was difficult to understand why a vendor would resort to excessive overtime when it ate into his profits. Why would a supervisor scream at a worker who was so critical to production? Why did administrators waste time maintaining false sets of records when it was simpler to maintain transparent records?

My questioning of the industry brought one consistent but unsatisfying answer – "industrial practice." I realized that industrial practice had become a comfortable refuge. When you're comfortable, you don't like to change or ask questions.

When, as a VCO, I demanded change, I was considered a troublemaker. I was told that if we stopped overtime, workers would strike because they needed the extra money. I was told that screaming was necessary because it was the only language that workers understood. And so on.

Yet over time, as I have shared Gap Inc.'s ethical sourcing principles with our partners in South India, I have witnessed steady, albeit slow, change. Experience is proving that better planning reduces the need for overtime, and more efficient production processes give workers the opportunity to earn more in fewer hours. When workers are being paid according to the law, there is no need to keep different sets of records. As workers see these changes, they reciprocate with fewer grievances against management, greater motivation and increased quality of production.

We are beginning to see a paradigm shift in the definition of "industrial practice" in India. There is still much to learn and change. Yet every time a best practice becomes a common practice, I know it's a small victory. Slowly but surely, the concept of "compliance" is evolving into the possibility of corporate social responsibility.

Jyotsna Belliappa is the Gap Inc. Vendor Compliance Manager for South India.

What do these numbers mean?

We still face many challenges with our approved factories. However, our approval process does have a measurable impact on factory compliance levels. Approved factories tend to have fewer overall compliance issues than factories that have not yet gone through the process. The only violation we find more frequently in approved factories is related to our overtime policy, and this is due to the fact that we have the opportunity to review factory records for longer periods of time and during peak production cycles.

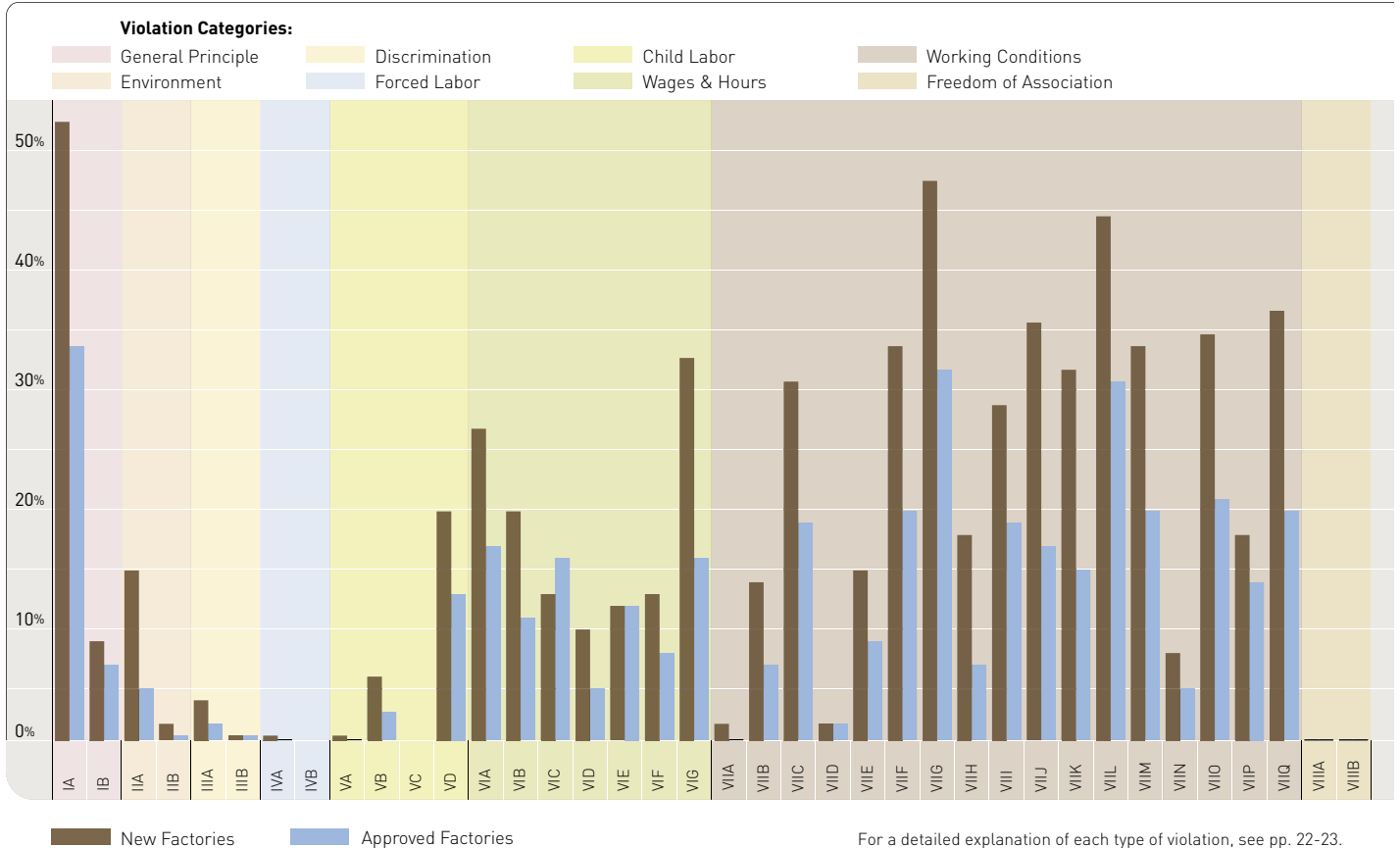
Monitoring our approved factory base

Once a garment factory is approved, we aim to visit it at least once a year. For some, we conduct more visits. In 2004, our VCOs conducted approximately 6,750 inspections in 2,672 garment factories around the world. This is a decrease of about 1,750 inspections and 337 factories compared to 2003, due primarily to consolidation in our manufacturing base.

2004 FACTORY APPROVAL DATA

REGION	# of new garment factories evaluated	Approved	Not approved	Pending
Greater China	93	68%	26%	6%
North Asia	11	91	9	0
Southeast Asia	75	78	7	15
Indian Sub-Continent	64	87	8	5
Persian Gulf	1	100	0	0
North Africa & the Middle East	30	73	13	14
Sub-Saharan Africa	21	62	29	9
Europe (including Russia)	57	70	21	9
United States & Canada	20	80	5	15
Mexico, Central America & the Caribbean	68	88	9	3
South America	14	64	29	7
Total	454	77%	15%	8%

2004 DOCUMENTED COMPLIANCE VIOLATIONS: NEW FACTORIES VS. APPROVED FACTORIES



For a detailed explanation of each type of violation, see pp. 22-23.

In 2004, we inspected 99.9 percent of the garment factories approved for all of fiscal year 2004, and 90.4 percent of factories approved for less than 12 months. This was an increase of approximately 6 percent and 4 percent, respectively, over 2003. In addition, our VCOs held approximately 1,300 other meetings with factory managers to help resolve compliance issues, facilitate worker and management training sessions, or review the policy and procedures of our program.

Going forward, we expect the total number of inspections to continue to decrease. This is both because we anticipate more consolidation in our manufacturing base and because we plan to redefine our monitoring protocols to allow for longer inspections at larger factories.

In the post-quota world, garment factories will probably increase in size to take advantage of economies of scale. Many will employ thousands of workers. In this new context, our monitoring program will be more effective with fewer, but longer, inspections in each factory – a practice confirmed by the recommendations of SAI and Verité. Dedicating more people and more time to each of our inspections will give us a more detailed picture of factory conditions.

This will also help us identify the root causes of violations and devote more time to remediating them. We anticipate that this decrease in the number of inspections will be complemented by an increase in the number of other meetings and training sessions that VCOs hold with factory managers and workers. These sessions, in which we often partner with external groups to provide training, help factory managers understand how to fix problems more effectively and prevent them from recurring. As their understanding grows, we will expect manufacturers to assume more responsibility for their own business practices.

ASSESSING FACTORIES: WHAT DOES PROGRESS LOOK LIKE?

We did not see significant changes in overall factory compliance levels from 2003 to 2004. In fact, we would have been surprised if we had, given the ongoing changes in our supply base, new program procedures and the fact that remediation simply takes time.

2004 FACTORY MONITORING DATA

REGION	APPROVED FOR ALL OF FY2004		APPROVED FOR ALL OR PART OF FY2004	
	# of garment factories	% of factories visited	# of garment factories	% of factories visited
Greater China	219	100%	423	97.9%
North Asia	64	100	138	82.6
Southeast Asia	350	99.7	603	94.5
Indian Sub-Continent	299	100	525	90.9
Persian Gulf	18	100	29	89.7
North Africa & the Middle East	30	100	92	83.7
Sub-Saharan Africa	53	100	103	91.3
Europe (including Russia)	91	98.9	257	81.3
United States & Canada	33	100	151	76.2
Mexico, Central America & the Caribbean	87	100	280	91.1
South America	34	100	71	93.0
	1,278	99.9%¹	2,672	90.4%

¹ Two approved factories did not receive an evaluation in 2004. One, located in the Philippines, experienced a meningitis outbreak that forced our VCO to postpone his inspection until it was safe to enter the factory. The other, in Belgium, is the only approved factory in that country and serves primarily as a center for distribution of merchandise to our retail stores. The facility has a small sewing section for the repair of defective products found in shipments from other factories but does not manufacture any garments directly.

Changes in our manufacturing base

The factories in our base continued to shift from 2003 to 2004. We approved 349 new factories in 2004. Since new factories tend to have less knowledge of our compliance expectations than established factories, they are more likely to have compliance problems, especially in basic health and safety areas.



Better documentation procedures

We modified our internal policies and procedures on documentation in 2004. It isn't always easy for VCOs to determine how to categorize a specific factory issue. For example, when a factory fails to pay the minimum legal wage to workers, this violates both local law (Section IA of our COVC) and our minimum wage requirement (Section VIA of our COVC). In 2003, we discovered that VCOs were sometimes classifying issues as violations of local law when they could be classified more specifically elsewhere. Last year, we took time to clarify our internal policy, noting that all violations should be documented under the most precise COVC requirement available. As a result, we saw a 5.5 percent global decrease in the number of local law violations, with corresponding increases in other areas (in particular, Section VIIC on local laws on working conditions).

External training on monitoring skills

As mentioned earlier, we underwent external assessments by SAI and Verité. We asked them to review our overall program and help our team better detect compliance violations – especially those related to discrimination and freedom of association. As a result, our VCOs demonstrated better detection rates in the second half of 2004, which resulted in small percentage increases in some violation categories.

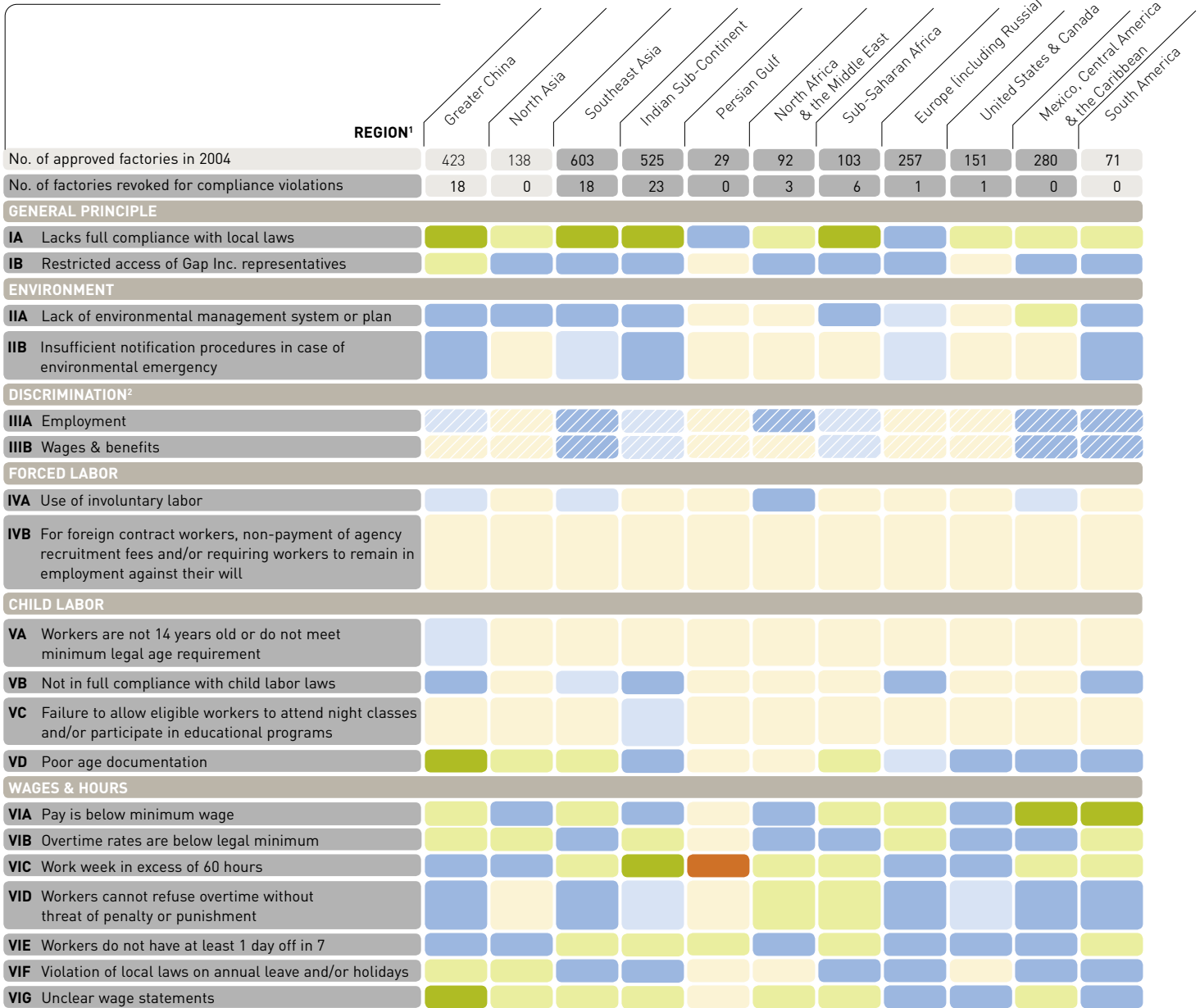
Notably, we also saw small increases in our documentation of factories with cases of discrimination. In part, this demonstrates what our team learned from the SAI training sessions in October 2004. Nonetheless, we continue to believe that these violations, and those of freedom of association, are more widespread than our data suggest. Many of these issues first come to our attention through third parties, such as trade unions or NGOs, rather than our own monitoring efforts. We plan to introduce more targeted training to improve our work in these areas in the future, and explore ways to integrate trade union and NGO insights more systematically into our monitoring processes.

Remediation takes time







Another reason we did not see significant changes from 2003 to 2004 is that the most difficult compliance violations take time to resolve. Many cannot be remediated through the monitoring process in ways that address their root causes and prevent them from happening again. To see lasting improvements, we have to supplement our monitoring with more training and development opportunities; help management develop more efficient production processes and better supervisory skills; and help workers learn how to assert their rights and seek recourse when problems arise. We would also like to encourage manufacturers to invest in new and better technologies that will improve factory productivity without straining worker capacity.

Although we have been monitoring for several years, we are still in the early stages of this more comprehensive approach to remediation. Later in this report, we share some of what we have learned from pilot projects and collaborative initiatives. Ultimately, we hope to use this work with external partners to complement our monitoring – not only to continue improving our ability to detect issues, but more important, to resolve them effectively and prevent them from recurring.

2004 CODE VIOLATIONS



LEGEND

	No code violations verified
	Violations verified in less than 1% of factories
	Violations verified in between 1% and less than 10% of factories
	Violations verified in between 10% and less than 25% of factories
	Violations verified in between 25% and less than 50% of factories
	Violations verified in more than 50% of factories

The size and scope of this chart preclude a thorough analysis of issues in all regions. However, the following discussion highlights some of our key findings in 2004.

SECTION IV – FORCED LABOR

We found one instance in 2004 in which workers in a Chinese factory were not permitted to resign (if they so desired) during the peak production season. We revoked approval of the factory.

We also found a case in Honduras where the doors in one production area were locked, thus preventing workers from being able to leave. We asked the factory to correct the situation immediately and confirmed a few weeks later through a physical inspection and interviews with workers that the doors were and had remained unlocked. We continue to monitor the factory.

We recorded three cases in Egypt, Morocco and Vietnam, respectively, in which factories maintained a clause in their employment contracts requiring workers to pay a fee if they resigned before the contract ended. In each of the three cases, we required the factories to remove this clause and followed up in subsequent visits to confirm that it had been deleted.



SECTION V – CHILD LABOR

Last year, we uncovered three cases in China in which workers had been hired just before they turned 16 years old, which is the legal working age in China. We revoked approval of all three factories. We also observed a relatively high occurrence of problems with age documentation in China. While most of these violations were relatively minor, such as a missing photo in a personnel record, we continue to monitor this issue vigilantly and will investigate further if we suspect any falsification of documents.

REGIONAL ISSUES

China

Freedom of association is an especially complicated issue in the Chinese legal context. We recognize that Chinese workers, like all workers, have an important voice that needs to be heard by management in a regular and consistent way. Chinese law, however, stipulates that workers may organize only under the umbrella of the government-sponsored trade union. We are currently examining ways in which we can facilitate lawful “parallel means” to free association in China in order to provide workers with the opportunity and means to raise concerns and seek solutions without the fear of repercussions. We have begun taking small steps in a few Chinese factories to facilitate the formation of worker committees around health and safety issues and recreational activities.

Persian Gulf

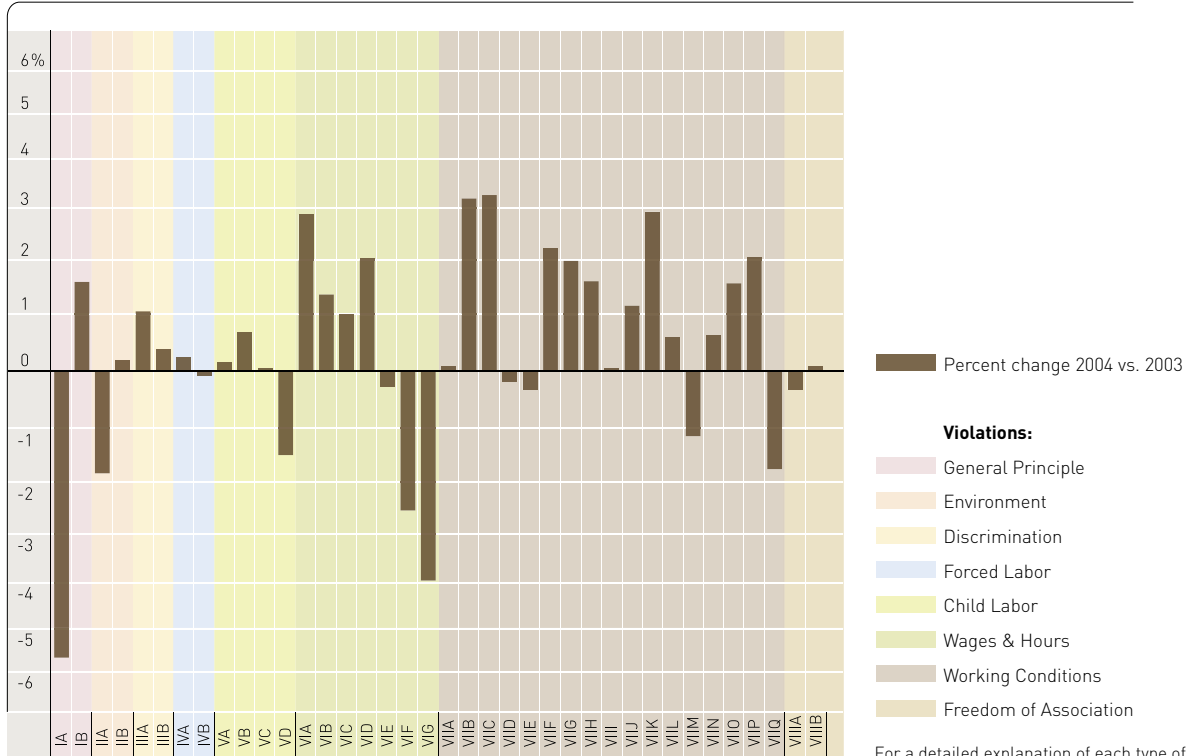
We saw a significant increase last year in overtime violations by factories in the Persian Gulf. We believe this was due in large part to production pressures stemming from fabric delays, as well as shifts related to quota requirements. The factories corrected the problems upon our request. However, we will monitor this situation closely in 2005.

South America

We saw a notable increase in several categories of violations in South America. This region experienced significant growth in production last year and was one of only two regions worldwide where the number of approved factories increased in 2004. Most of the violations involved health and safety issues, such as blocked aisles, missing exit signs and a lack of machinery safety devices. These types of issues tend to be more common in facilities that have been approved for shorter periods of time. We are continuing our work with our South American manufacturers to help them better understand our requirements with the expectation that they will demonstrate improved performance over time.

1 The map on pp. 6-7 provides a breakdown of sourcing countries in each region.
 2 We believe that violations in these areas are more widespread than our data suggest. For more information, please see p. 20.

CHANGE IN % OF FACTORIES WITH DOCUMENTED CODE VIOLATIONS BY TYPE



For a detailed explanation of each type of violation, see pp. 22-23.

FACTORY PERFORMANCE IN 2004

We noted in 2003 that few factories, if any, are in full compliance all of the time. Our goal is to work with factory managers to fix problems where we find them and work to prevent them from recurring. However, serious or excessive COVC violations sometimes require us to terminate a business relationship. Last year, we revoked our approval of 70 factories for compliance violations, about 2.6 percent of our approved base. This is down from 136 factories, or 4.5 percent, in 2003.

We attribute this decrease largely to the fact that we uncovered fewer instances of false recordkeeping last year. This is a violation that we will not tolerate and that has led us to revoke several factory approvals in the past. During the past two years, we have stressed to manufacturers the importance of showing VCOs true, accurate records. We prefer to work with manufacturers who are honest about their challenges rather than those we cannot trust. Since we made no changes to our detection process, we hope this decrease suggests that our words and actions have had an impact.

The chart on the next two pages illustrates the frequency of code violations documented by our VCOs in approved garment factories in 2004.

“Our experience tells us that the most responsible companies can be the ones that report a rise in labor rights abuses. Rather than the real situation for workers getting worse, it may be that the brand has gotten better at detecting problems. But diagnosis is only step one. It is more important to see companies reporting corresponding increases in the number of problems that have actually been resolved.”

Dan Rees, Ethical Trading Initiative (ETI)

RATING FACTORIES ON COMPLIANCE PERFORMANCE

In last year's report, we introduced a rating tool that quantifies our inspection data and helps us compare factory performance from year to year. Factories receive ratings based on the number and type of issues documented during inspections over a 12-month period, as well as how often the issues recurred and how long it took factory management to resolve them.

What we learned from the pilot phase

The pilot phase of this project has been very instructive. Although we apply the same monitoring protocol globally, we've learned that certain regional differences, such as the number of VCOs conducting an audit, can impact ratings and affect rating distributions in different countries.

In 2005, we will be evolving our global monitoring protocol to incorporate specific regional needs and address recommendations from SAI and Verité. We hope this will help reduce variation among countries.

2004 FACTORY RATING DATA

The following chart shows our 2004 rating data. These ratings were calculated using the same methodology as those reported in 2003.

2004 FACTORY RATING DATA

COUNTRY	Level 1 (Urgent Attention Required)	Level 2 (Needs Improvement)	Level 3 (Fair)	Level 4 (Good)	Level 5 (Excellent)	Total
Cambodia	1	2	9	14	6	32
China	49	51	68	54	14	236
El Salvador	2	0	2	1	5	10
Guatemala	3	4	7	3	0	17
Honduras	3	2	1	5	2	13
Lesotho	2	3	4	3	0	12

We are continuing to work toward the implementation of a new tracking and reporting system, which will enable us to analyze our monitoring data in a more sophisticated manner. We hope to refine our rating tool as our technical infrastructure evolves.

CHANGES FROM 2003 TO 2004

Because of differences across countries in local laws, average factory size and cultural comfort levels with sharing concerns, comparing countries can be difficult. As such, the following section reviews rating changes from 2003 within each country.

Cambodia

Ratings in Cambodia were generally stable in 2004. Of the factories rated in both 2003 and 2004, 83 percent either maintained or increased their ratings. Four factories fell back, and just one is currently rated Level 1.

Lesotho

In Lesotho, 90 percent of the factories rated in 2003 either maintained or increased their ratings last year. Two factories are currently rated Level 1. We are continuing to work with these factories to help them improve their performance.

El Salvador

In El Salvador, 100 percent of the factories rated in 2003 maintained or increased their ratings in 2004. Two factories, both of which were newly approved in 2004, are currently rated Level 1.

Guatemala and Honduras

In both Guatemala and Honduras, more than half of the factories rated in 2003 experienced a rating decline last year. This decline may be due in part to the fact that we expanded our staff in Central America and were able to conduct more factory inspections. However, we are investigating further to determine if there may have also been a decline in conditions.

China

In China, 51.8 percent of the factories rated in 2003 maintained or increased their ratings in 2004. Of the factories rated Level 1 in 2003, a majority either improved their ratings or were removed from our active production base last year.

Despite these positive changes, we were concerned by the year-on-year decline of 48.2 percent of the facilities rated in both 2003 and 2004 in China. We believe this is due to three factors.

First, our local VCOs improved the accuracy of their documentation of issues. Documentation is extremely important in the calculation of ratings, since issues receive weightings in the rating formula based on their relative severity. For example, IA (local law) violations are not considered as serious as other types of violations. In 2003, Greater China had one of the highest rates of IA violations in the world. Upon analysis, however, we discovered that many of these violations could have been classified more accurately under a different COVC item. Last year, the VCO team in China took steps to improve their approach and list violations under the most specific COVC section possible. This led to an overall increase in other types of issues, some of which were weighted more heavily in the rating formula.

Second, our team increased the number of joint inspections in Chinese factories last year. With more people in the factory, our ability to find violations improved.

Third, we believe that the number of compliance issues in some areas simply increased. Several areas in China experienced labor and power shortages last year, which led to significant disruptions in production. Because some factories sought to compensate by working longer hours, we saw more violations of our overtime provisions. Since overtime requires factories to pay workers more, we also saw an increase in wage violations. Both of these are serious issues, so the increases weighed heavily on factory ratings.

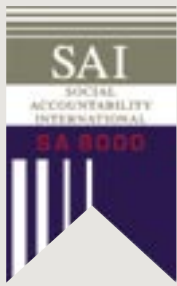


2004 EXTERNAL PROGRAM ASSESSMENTS

Third-party assessments of our work are essential in helping us identify opportunities for future development. External stakeholders challenge us with different perspectives, set new expectations and hold us accountable for results.

In 2004, we fulfilled our goal to participate in SAI's independent evaluation of our Global Compliance program. Respected for its expertise in management systems, SAI examined our program in its entirety, conducting interviews with our corporate leadership team, reviewing our internal policies and procedures, and "shadowing" VCOs during factory inspections in the field. We also asked Verité, an organization known for its expertise in auditing, training and analysis, to conduct a focused assessment of our monitoring program and procedures, including our goals and impact, and the training needs of our field team. Both evaluations reinforced some of our best practices, such as the inclusion of all of our garment manufacturers and subcontractors within our program's scope and the experience and enthusiasm of our compliance team. They also identified areas for improvement, such as the need to restructure our monitoring teams to use their time more efficiently and to develop a formal training program for our approved garment factories. Each organization provided a summary of its findings for this report, which appear on pages 26-27.

We have planned several initiatives for 2005 and 2006 that incorporate the recommendations from SAI and Verité. These include reviewing our COVC against multi-stakeholder codes such as SA8000 and the Ethical Trading Initiative (ETI) Base Code, revising our monitoring protocol, and providing additional training for our team on challenging compliance issues. For more information, please see our goals for 2005-06 on page 13.



GAP INC. ASSESSMENT AND RECOMMENDATIONS

Social Accountability International

Gap Inc. participated in SAI's Corporate Involvement Program (CIP) Pilot Assessment, an objective evaluation of its social compliance program. It included a headquarters visit, a transparency review by Sustainability, and SAI field reviews of Vendor Compliance Officer (VCO) audits at factories in China, Turkey, Guatemala and India.

The assessment was based on the five elements listed below. Findings were shared with a multi-stakeholder review panel that presented a set of recommendations to Gap Inc. The panel members were Neil Kearney, Secretary General of the International Textile, Garment & Leather Workers Federation, Dorianne Beyer, General Counsel of the National Child Labor Committee, and Achim Lohrie, Head of Strategy Development and Controlling, Environmental and Social Policy Department, Otto (GmbH).

Key Findings & Recommendations

MANAGEMENT SYSTEMS:

Gap Inc.'s scope of compliance procedures encompasses all its vendor facilities, including subcontractors. A planned incentive-based "strategic supplier" program will link compliance with traditional quality and reliability ratings of vendors. Both are impressive best practices.

Key Recommendations: Include contract employees, homeworkers, supervisory and management personnel within monitoring scope. Link "strategic supplier" performance to an internationally recognized multi-stakeholder standard and to measurable improvement towards meeting that standard.

AUDITING:

The observed VCO teams are highly motivated and do a very competent job in many aspects. Nevertheless, their time is used inefficiently. VCOs are deployed on an excessive number of short visits – typically only one day per factory (not enough for a thorough job) – rather than more concentrated, in-depth, well-planned audits. Like most social auditors, VCOs lack sufficient skill in hard-to-audit areas like freedom of association and discrimination.

Key Recommendations: Deploy VCOs in a more concentrated manner, with longer audits at larger facilities and less frequent monitoring. Provide formal auditor training, make passage of auditor exams a job qualification and, over time, shift to more diagnostic audits by third-party accredited auditors.

DEVELOPMENT APPROACH:

Gap Inc. has no formal training program for its suppliers, managers or workers.

Key Recommendation: Develop and provide a regular program for supplier training in compliance requirements, worker rights and human resources management.

MULTI-STAKEHOLDER PARTICIPATION:

Gap Inc. engages in several multi-stakeholder initiatives and has recently expanded that involvement. Gap Inc. is highly regarded by these groups.

Key Recommendation: Develop a more coordinated strategy to work with trade unions and their local affiliates.

TRANSPARENCY:

Gap Inc.'s "warts and all" 2003 Social Responsibility Report received well-deserved praise from stakeholders and the public.

Key Recommendation: Provide more measures of progress and disclose more numerical performance targets.



GAP INC. PROGRAM AND TRAINING NEEDS ASSESSMENT

Verité

In 2004, Gap Inc. commissioned Verité, a not-for-profit monitoring, training and research organization, to study its Global Compliance program. The aim was to enhance program efficiency and scope by identifying strengths and weaknesses in Gap Inc. vendor engagement, internal training and management systems, as measured against company goals and external best practices.

The Assessment provided a quantitative evaluation of Gap Inc.'s performance, assessing the effectiveness of Gap Inc. auditors at identifying various types of Code of Conduct violations in sample factories and the extent to which violations were remediated. Verité's Assessment also engaged Global Compliance field and headquarters staff and factory managers in discussions about their work, program impact and priorities for improvement. Verité recommended measures to strengthen management systems, build field capacity, support vendor ownership, strengthen facility monitoring and broaden relations with external stakeholders.

Global Compliance program strengths included:

- Decentralized and flexible structure, management and operations
- Support for openness and innovation
- Experienced staff and an effective "on-boarding" process
- Well-documented systems and procedures
- Integration of social compliance policy into corporate strategy and planning
- Engagement with external stakeholders

NOTE:

Gap Inc. compensated SAI and Verité for their assessments. Both groups have also provided consulting services to the company on auditing and training issues. Gap Inc. is a member of SAI's Corporate Involvement Program.

Key recommendations included:

- Increase the level of credible information gathered from workers
- Strengthen alignment between sourcing and compliance strategies
- Capture best practices and lessons learned in the field, especially remediation strategies
- Standardize training, field protocols and processes
- Increase technical support and training to field staff on chronic compliance issues, root cause analysis, corrective action planning and gathering information from workers
- Re-orient field staff and match staff competencies to the remediation function to increase the impact of the Vendor Ownership Program
- Increase vendor support through such initiatives as social compliance management training

Photo:

Members of the Gap Inc. Global Compliance team participate in a training session led by Verité in Bangkok, Thailand.





Integrating Labor Standards into Our Business Practices

We strongly believe that making compliance a basic part of how our industry does business is essential to forging sustainable solutions.

Reengineering our supply chain has been a top priority since Gap Inc. launched its financial turnaround three years ago. Historically, a system of quotas made it difficult to manage our supply chain strategically. Strict limits on the amount of apparel that companies could import from any one country forced us to spread production across more sourcing markets than we liked. Because they couldn't always rely on large quantities of our business, our manufacturers had limited incentive to partner with us to improve their operations.

The expiration of these quotas at the end of 2004 has given us an opportunity to consolidate our sourcing base, reinvent our relationships with manufacturers and transform our supply chain into one that truly reflects our values and business needs.

Although we now have more control over where we do business, we don't intend to put all of our production in one place. We believe we need a diverse sourcing network to mitigate geographic risk, increase speed-to-market and deliver the wide variety of products we sell in our stores.

THE END OF QUOTA

In 1974, the internationally negotiated Multi-Fiber Arrangement (MFA) created a system of quotas that put a cap on the quantity of textiles and apparel that companies in the United States and Europe could import from any one country. These restrictions led to a practice known as “chasing quota,” in which buyers met their production needs by scattering orders over dozens of different countries. As a result, garment industries were artificially created in many places that otherwise lacked the proximity, infrastructure, workforce or cost base to compete effectively in an open market.

With the expiration of these quotas at the end of 2004, companies are now basically free to begin consolidating their sourcing bases and concentrating production with preferred manufacturers.

As we discuss in this section, we believe industry consolidation creates opportunities to begin integrating labor standards directly into sourcing practices. Still, we share widespread concerns about the consequences of consolidation for countries that have come to rely on the garment industry for jobs and revenue. On page 38, we discuss our commitment to help manage a responsible transition to a post-quota environment through participation in the MFA Forum, a newly formed multi-stakeholder effort.

Over time, though, we intend to start concentrating a greater percentage of our production with our best manufacturers. As our relationships evolve, we expect them to work with us more closely to drive continuous improvement in all aspects of our supply chain operations – including innovation, quality, cost, and labor and environmental standards.

This section discusses several ways that we are leveraging our purchasing power and closer relationships with manufacturers to integrate labor standards directly into our supply chain operations. The various efforts we describe below – such as making labor standards a more important part of our buying decisions, improving factory operations and reducing inefficiencies in our purchasing practices – are still in the early stages of development. We strongly believe, however, that making compliance a basic part of how our industry does business is essential to forging sustainable solutions. We look forward to providing updates on our progress in this important area in future reports.

BUILDING CLOSER RELATIONSHIPS WITH OUR GARMENT MANUFACTURERS

Earlier this year, we invited our largest garment and textile manufacturers to San Francisco for our first Gap Inc. Global Vendor Summit to share our new business and sourcing strategies and discuss ways to work together more effectively.

One of our key goals is to develop a better understanding of what our garment manufacturers do best. The capabilities required to produce garments can vary widely. For some garments, quality may be a key consideration, while for others, cost or speed-to-market might be more important. Some manufacturers generally produce basics throughout the year, while others are highly specialized and seasonal. Different factories have different competencies and strengths, and it is important that we distribute our production accordingly. For example, asking a small factory known for quality to deliver a large order in a short period of time can create risk in delivery and place unintended burdens on factory workers. Ultimately, we must work to ensure the strengths of our vendors are aligned with the needs of our brands.



GAP INC. VENDOR SUMMIT

Nick Cullen

We can't build our business on our own – no matter how good our strategies, no matter how hard we try. This year we are making a deliberate effort to build partnerships with vendors and to explore how we can better work together.

Gap Inc.'s Global Vendor Summit, held in San Francisco in early 2005, marked the first step in the company's efforts to create deeper relationships with our vendors. More than 120 people from our top garment manufacturers and textile mills came together to talk with us about how to work together to address changes in both the industry and our own supply chain.

The removal of import quotas at the end of 2004 offers new opportunities to work together more closely and to reward our top performing vendors with higher volumes and longer-term commitments. Challenges remain in helping vendors meet our standards for quality and compliance with our COVC. We've made it clear that, in return for our business, we expect more accountability from them in these areas.

Developing these kinds of close relationships takes time and coordination. However, we're confident that, as we provide increased volumes, our vendors will be able and willing to make investments to improve innovation, quality, and labor and environmental standards while decreasing costs.

Nick Cullen is Executive Vice President and Chief Supply Chain Officer at Gap Inc.

Most garment manufacturers provide services to multiple clients, and today, we know little about a specific manufacturer's workload beyond the orders we've placed. For competitive reasons, garment manufacturers often take on more work than they can handle, which not only jeopardizes deadlines but can also subject workers to excessive overtime hours.

To encourage garment manufacturers to take more responsibility for working conditions in the factories they own, operate or contract with, we are building labor standards directly into our buying decisions through an "integrated sourcing scorecard." This overall assessment of capabilities and performance will include each factory's compliance history, in addition to other production criteria we use when deciding which manufacturers will get our business.

Our Global Compliance team already influences sourcing decisions, particularly during the initial approval process and in cases of serious or habitual violations. Generally speaking, however, once Global Compliance approves a factory for production, and unless it mandates termination for compliance reasons, our sourcing team places production based primarily on other performance-related criteria, such as innovation, quality and cost.

Our new integrated sourcing scorecard will be used by our sourcing team to make more balanced and strategic performance-based buying decisions and put more pressure on garment manufacturers to improve. Each approved factory will be assigned a compliance score based on our pilot factory rating tool (see page 24). In the future, this metric will be considered along with others, such as how the factory performs against basic quality requirements, to determine whether a factory is suitable for production.

We have already started to see encouraging signs that garment manufacturers are ready to take greater responsibility for working conditions. Last year, for instance, four garment manufacturers we work with in China sought SA8000 certification, a voluntary workplace standard developed and administered by SAI. The standard, based on ILO and other labor and human rights conventions, promotes management systems that improve working conditions. It can take as long as two or three years to become SA8000 certified and some factories are never able to attain certification. Yet, one of the factories involved satisfied the requirements in less than three months. The other three did so in approximately five months.

Similarly, we supported a pilot program in Sri Lanka last year in which two of our approved manufacturers pursued SA8000 certification. One of them qualified in just two and a half months, and the other qualified in seven months.



IMPROVING FACTORY OPERATIONS

Through our work with thousands of garment manufacturers and their factories, we know that poor management and inefficient operating practices can take a toll on workers. We've also seen some evidence that the most productive and reliable factories tend to have fewer compliance problems.

Beginning in 2003, we partnered with the U.K. consultancy Impactt and the Hong Kong Productivity Council (HKPC) to pilot a productivity program to determine if initiatives focused on improving factory operations and productivity would also lead to better working conditions.

As part of this program, Impactt and HKPC worked with five factories in China over a nine-month period to evaluate their existing practices and correct managerial and operational problems, ranging from poor communication to inefficient production processes. The preliminary results, which became available in August 2004 and are summarized in the table on the next page, exceeded our expectations.

In the four factories where management was committed to the initiative, there appeared to be a clear correlation between productivity and better compliance. In the fifth, where no improvements were seen, factory management did not implement the suggested changes, despite encouragement from its parent corporation.

The most committed participant, Factory A, not only generated significant annual savings in its operations by using raw materials more efficiently, but also reduced worker turnover by more than 50 percent. Because workers were paid a piece rate, improved productivity led to a 50 percent increase in their total monthly pay. Other factories experienced increases in hourly and monthly pay, as well as reduced cycle times, more efficient fabric use and lower reject rates.

Based on these results, two of the participating factories have continued to work with an industrial engineer from the project, with our VCOs serving as facilitators. Another participant hired a full-time employee to manage a similar internal productivity program. And four new Chinese factories have signed up to start a similar project in 2005.

“Social compliance standards are still evolving and therefore, our policies and procedures should comply with the most stringent standards available. Since SA8000 is a standard that helps us to effectively measure and manage social compliance, we had no hesitation when Gap Inc. suggested that we consider certification.”

Southeast Asian garment manufacturer

Given the program's success, we've also partnered with the National Productivity Council of India to introduce a similar program in four factories in India in 2005.

We believe these pilot projects could ultimately help us articulate a compelling business case that motivates our garment manufacturers and others in the garment industry to achieve higher levels of compliance. In the meantime learnings from these programs are providing us with more creative and effective tools for addressing intractable problems such as excessive overtime and working hour violations in our own manufacturing base.

In addition to our work with Impactt, we are participating in a study to assess the effect better human resource management systems have on productivity, product quality, compliance with corporate codes of conduct and other performance metrics at the factory level. This work is ongoing, but initial results have been promising. For example, there does seem to be a link between improved working conditions and lower worker turnover. Ultimately, the study will explore whether training and development programs can lead to workplace improvements. Evidence of this nature may help convince garment manufacturers that investing in such management systems is good for their businesses.

REDUCING INEFFICIENCIES IN OUR PURCHASING PRACTICES

One of our goals in 2004 was to determine how inefficiencies in our purchasing practices affect working conditions in the factories that make our clothes. Over the past year, we have seen that we sometimes unwittingly contribute to compliance issues in a number of ways, ranging from missed deadlines to last minute design changes.

SUMMARY OF IMPACTT PROGRAM RESULTS

FACTORY INFO.		SCOPE	PRODUCTIVITY		COMPLIANCE	
Factory	Location	Primary Areas of Focus	Efficiency	Worker Turnover	Overtime	Wages
A	Southern China	<ul style="list-style-type: none"> Redefine role of sewing supervisors to focus on workers' wages and operational efficiency as well as output and quality Better tracking of material 	<ul style="list-style-type: none"> 99% decrease in number of missing units 	<ul style="list-style-type: none"> Decreased from 15% to 6.7% 	<ul style="list-style-type: none"> 35% reduction per month 	<ul style="list-style-type: none"> 50% average increase in monthly total pay
B	Southern China	<ul style="list-style-type: none"> Reduce production inefficiencies Better tracking of material 	<ul style="list-style-type: none"> 20% increase in sewing line efficiency 44% reduction in leftover fabric 21% reduction in need for fabric replacement 	<ul style="list-style-type: none"> Not measured 	<ul style="list-style-type: none"> No change 	<ul style="list-style-type: none"> 14.3% average increase in monthly total pay
C	Northern China	<ul style="list-style-type: none"> Improve productivity in two sewing lines Provide training for sewing supervisors 	<ul style="list-style-type: none"> 1.5% increase in first sewing line efficiency¹ 37% increase in second sewing line efficiency Need for re-work decreased from 11% to 6.2% 	<ul style="list-style-type: none"> Small increase due to reduction in wages, which was linked to fewer overtime hours Factory established appraisal system for supervisors to assess quality and determine training needs 	<ul style="list-style-type: none"> Reduced by an average of 87 hours in the sewing section and 53 hours in the cutting section per month 	<ul style="list-style-type: none"> 10% approximate decrease in monthly total pay due to reduction in overtime²
D	Southern China	<ul style="list-style-type: none"> Manage production for sewing groups Reduce cycle time for basic operations 	<ul style="list-style-type: none"> 7%-42% improvement in cycle times, depending on operation 20% reduction in reject rates 	<ul style="list-style-type: none"> Not measured 	<ul style="list-style-type: none"> No change 	<ul style="list-style-type: none"> 4.4% average increase in monthly total pay³
E ⁴	Southern China	<ul style="list-style-type: none"> Manage production for sewing groups Improve tracking of material 	<ul style="list-style-type: none"> No change 	<ul style="list-style-type: none"> Increased in the two sewing lines assessed 	<ul style="list-style-type: none"> No change 	<ul style="list-style-type: none"> No change

1 Although productivity improved 53 percent in the first four months in this sewing line, it fell drastically in the fifth month due to more complex orders being produced.

2 Management did increase piece rates by about 10 percent, but the increase did not fully compensate for the decrease in overtime hours. Impactt recommended that the factory continue working to improve its productivity to ensure that workers would be able to earn the same wages in fewer hours.

3 During one of the project months, a new style was introduced that was unfamiliar to workers and productivity declined. Without this change, the average wage increase would have been significantly higher.

4 In its final report, HKPC stated "the commitment from the factory was not strong during the course of the project. The project team [in the factory] was rather passive and created the feeling that there was not [a] genuine need to drive the project in the factory."

In our industry, alterations to an order are often made even after an item is in production. Many garment manufacturers can manage such changes and deliver on time or with an acceptable delay without compliance violations. Some, however, may be unable to complete an order on time without requiring more hours or higher productivity levels from factory workers. These circumstances can lead to violations if management does not act appropriately. We need to be aware of these potential issues and manage our business accordingly.

In consultation with our garment manufacturers, we began working last year to redesign our production processes. We are seeking to streamline our processes and reduce wasted time while still allowing our teams flexibility to react to trends.

As a result of this work, we have made progress toward ensuring that our production calendars consistently reflect real manufacturing deadlines and that our teams adhere to them. Each of the functions involved in developing our products – from design and merchandising to sourcing and production – has committed to monitor its performance against this new schedule. In fact, stricter adherence to production calendars will be built into individual performance goals.

We're also beginning to involve manufacturers earlier in the production cycle so they can better understand our product design requirements. And we recently launched three initiatives to increase our understanding of the potential consequences of our sourcing practices:

- **Giving garment manufacturers the opportunity to evaluate our performance.** As part of our integrated sourcing scorecard, garment manufacturers will be asked to provide feedback on our working relationships, including how often we change orders after placing production and whether we are meeting our stated commitments.

LOOKING AT PURCHASING PRACTICES

Trini Leung

In the report *Trading Away Our Rights* (2004), Oxfam produced evidence to show that clothing retailers' demands for faster, more flexible and cheaper production in their supply chains undermine the very labor standards they claim to be promoting. Ethical codes of conduct alone cannot alleviate the endemic problem of precarious employment so long as retailers fail to address the part they play in causing poor working conditions.

We encourage Gap Inc. and other retailers to get the clothing industry to tackle the problem of abusive conditions and bring about meaningful improvements so that workers and women producing their goods can enjoy decent work and livelihoods. Incorporating commitments to workers' rights and poverty alleviation into their sourcing and buying strategies is critical to achieving this. For example, improving critical path management of their supply chain and building long-term partnerships with suppliers can avert the problem of excessive overtime and insecure employment among garment workers.

The U.K.-based Ethical Trading Initiative working group on purchasing practices could be a most constructive forum to develop a model of change that engages a wide group of companies, unions and NGOs. Clothing retailers need to meet the challenges of committing the time, resources and openness to this initiative and identify solutions so that precarious employment among clothing workers can be alleviated.

Trini Leung is a policy adviser for Oxfam in Great Britain.

- **Increasing awareness among our employees.** A pilot program within Gap brand will use a variety of training scenarios to help our merchandising and design teams understand the impact that their decisions can have at the factory level.
- **Studying purchasing practices across the garment industry.** We will take a broader look at purchasing practices across the garment industry through the ETI working group on purchasing practices, in which participants will assess and share findings on different aspects of their production processes. This work will also be the basis of a report we're doing as part of our membership in the Business Leaders Initiative on Human Rights (BLIHR).



Progress Through Partnerships

Meaningful change requires not only a firm commitment and sustained effort, but also scalable, collaborative strategies that leverage the influence, resources and capabilities of stakeholders from all sectors.

Through better monitoring and the integration of labor standards into our supply chain operations, we are beginning to address some of the ways that garment manufacturers and buyers contribute to poor working conditions.

But as we've discussed, the causes of poor working conditions are much broader than just shortsighted factory management or inefficient purchasing practices. Problems in factories are often a reflection of external issues far beyond the immediate control of any single company or management team.

At the industry level, decentralization and inconsistent labor standards put a strain on limited enforcement resources and create incentives for garment manufacturers to take the easy way out.

Photo:
Gap Inc. Vendor Compliance
Managers participate in
an audit led by Verité in
Bangkok, Thailand.

At the country level, weak labor laws, erratic or non-existent enforcement, and economic underdevelopment deny garment workers the legal recourse and alternative employment opportunities that workers in other countries often rely on for relief from undesirable working conditions.

And at the international level, the expiration of quotas and rising expectations among consumers are creating new competitive pressures and threatening the livelihood of thousands of people.

Having a significant impact in such an environment can be difficult. As we learned from our experience in the Global Alliance, which dissolved last year, meaningful change requires not only a firm commitment and sustained effort, but also scalable, collaborative strategies that leverage the influence, resources and capabilities of stakeholders from all sectors.

INCREASING OUR EMPHASIS ON SCALABLE PROGRAMS

As the maps on pages 6 and 7 illustrate, we are currently involved in a variety of initiatives in areas ranging from worker education and vendor ownership to independent monitoring, public policy and productivity enhancement.

In the past, we have selected projects based largely on a combination of opportunity, relationships and need. We have cast our net wide to learn how to partner with external organizations, how to maximize benefits for workers and how to bring about lasting change. In short, we have explored and experimented.

This year, we are beginning to take a more focused, strategic approach. Small projects that enable us to innovate, respond quickly to urgent issues and establish new partnerships will continue to be an important part of our work. But we also want to place more emphasis on broader-scale initiatives that target systemic issues and have the potential to help drive industry-wide change.



THE IMPORTANCE OF CROSS-SECTOR COLLABORATION

Mary Robinson

One of the most promising developments in recent years is that more and more business leaders are recognizing that they have an important part to play in fostering greater respect for human rights, labor rights and the environment around the world.

The goal is not to “privatize” management of these issues. We can’t expect, nor should we wish, that companies take on such a challenge alone. I have always said that primary responsibility in such matters rests with governments.

I also believe, however, that no other societal factor has the potential to transform the way people live and work more than the private sector. For this reason and others, business leaders must be dedicated participants in broader efforts to safeguard our planet and secure a life of dignity for all people.

Regulation can help minimize abuses and enforce compliance with minimum norms. But if universal principles in the areas of human rights, labor rights and the environment are to become an integral part of business strategies and day-to-day operations, regulation alone won’t be sufficient. It must be coupled with a concerted effort to stimulate good practices, to be innovative and to provide leadership. Together, government, civil society and the private sector must build a framework in which doing the right thing also makes good business sense.

Mary Robinson, the first female president of Ireland (1990-1997) and, more recently, United Nations High Commissioner for Human Rights (1997-2002), has spent most of her life as a human rights advocate. In her current capacities as founder of Realizing Rights: The Ethical Globalization Initiative and as Honorary Chair of the Business Leaders Initiative on Human Rights (BLIHR), Mrs. Robinson is working with member companies, including Gap Inc., to ensure that respect for human rights is built into their business practices.

To do this, we are strengthening our internal resources and looking for ways to amplify the impact of our efforts. We have reorganized our team to achieve better regional alignment. We have people around the world focused on global partnerships, the environment, health and safety, and global operations. And we are broadening the skills and responsibilities of our monitoring organization through training on stakeholder engagement and the management of local initiatives.



We will also strive to move our most promising ideas from the pilot level to the program level. We will seek to create a timeline that encourages the concurrent development of complementary projects. And we will continue to participate actively in multi-stakeholder and multi-lateral frameworks that promote collaborative and standardized approaches to improving labor standards across our industry.

CONTINUING COMMITMENT TO STAKEHOLDER ENGAGEMENT

Our Global Partnerships team, which was founded in 2002, concentrates on promoting collaboration and cultivating the extensive stakeholder relationships critical to forging scalable and sustainable solutions. The team's ongoing outreach to leaders in government, civil society, trade unions and academia enriches our thinking, provides us with opportunities to get involved in local and regional projects, and makes it possible for us to participate constructively in multi-stakeholder initiatives at the industry and international levels.

Last year, we invited stakeholders from around the world to join us for one of two full-day sessions dedicated to exploring emerging issues in the garment industry. More than 40 leaders and experts attended the meetings, which were held in Washington, D.C. and London.

While the sessions were not designed to craft solutions, they helped deepen our understanding of the industry's changing landscape and the differing views and priorities of our stakeholders. Participants raised a wide variety of topics ranging from sanitation to AIDS awareness, but three dominant themes emerged from our discussions:

Greater Transparency — Participants from all sectors stressed the continued need for robust reporting that uses new tools and channels to increase transparency into factory conditions, as well as corporate practices and policies. Several stakeholders also believe that retailers could help them defend the rights of workers more effectively by disclosing the names and locations of the factories that produce their products.

More Active Involvement in Public Policy — Stakeholders in the United States were particularly eager to see global brands take a more active role in shaping legislation and trade policies that support labor standards and promote economic growth in less-developed countries.

Collaborative Approach to Quota Expiration and Other Challenges — Many stakeholders stressed the need for a collaborative approach to mitigating the near-term economic consequences associated with the expiration of quota, as well as other challenges facing the garment industry.

We can't promise to take action on all of these suggestions, particularly in the immediate future. This feedback, however, has helped us reassess certain aspects of our approach, and we are incorporating it as we develop our strategy for the coming years.

ONGOING PARTICIPATION IN MULTI-STAKEHOLDER INITIATIVES (MSIs)

Our membership in MSIs such as the Ethical Trading Initiative (ETI), Social Accountability International (SAI) and the Business Leaders Initiative for Human Rights (BLIHR) enables us to participate in efforts to address problems that are especially challenging or transcend individual sourcing markets. In this section, we discuss how we are working with MSIs to address three of our industry's most difficult challenges: developing a uniform code of conduct and consistent methods of enforcement, mitigating the consequences of post-quota consolidation, and protecting homeworkers.

Developing a Uniform Code and More Effective Enforcement Mechanisms

In last year's report, we stated that we would support a uniform code that is at least as stringent as our current requirements and consistent with the ILO's core labor standards.

We continue to believe that a uniform code – and more efficient and consistent methods of enforcement – would promote faster and more sustainable change across the industry. Garment manufacturers would make more progress if the playing field were level, and they had an incentive to invest in a single set of requirements. Instead of spending money on dozens of different audits in the same facility, buyers could leverage consolidated third-party monitoring services and concentrate more on other issues like remediation, capacity building and community development.

Unfortunately, developing a code and corresponding enforcement processes that are acceptable to everyone has not proven to be easy.

Our highly fragmented industry already has many codes. Most organizations and companies have historically been reluctant to adopt standards developed by others for reasons that include professional rivalry, genuine disagreement over content and the lack of concrete incentives to change.

GRI APPAREL AND FOOTWEAR SECTOR WORKING GROUP

In 2004, we agreed to participate in the Global Reporting Initiative's (GRI) working group to develop a GRI Apparel and Footwear Sector Supplement.

This supplement, which will complement the general GRI reporting framework, will cover issues specific to the apparel and footwear industries. It will be drafted by a multi-stakeholder group, working in conjunction with the GRI, over a 12-month period in 2005-06. The group includes approximately 20 members representing a geographically diverse mix of major brands, leading manufacturers, civil society organizations, trade unions and investors.

We see this work as an important step toward greater standardization of reporting in the apparel industry. The GRI's multi-stakeholder approach will bring together a variety of perspectives, which will help ensure spirited dialogue and debate on labor standards and other key industry challenges.

We appreciate the opportunity to participate in the development of a common set of indicators that companies in our industry can use to measure and report progress. Since the group's work will be based on consensus, we hope that the final product will carry a high level of credibility and acceptance among a diverse set of users.

The GRI working group will operate in a transparent manner by posting draft materials on the Internet and inviting public comment on the final working draft. The output of the group will be published by GRI as Pilot Version 1.0 of the GRI Apparel and Footwear Sector Supplement, which will be subject to further testing.



Still, we should be able to reach common ground, particularly as respected groups such as the Clean Clothes Campaign (CCC), ETI, the Fair Labor Association (FLA), the Fair Wear Foundation (FWF), SAI and the Worker Rights Consortium (WRC) continue to develop viable alternatives to proprietary codes.

Last year, these six multi-stakeholder organizations came together in Turkey to launch an effort known as the Joint Initiative on Corporate Accountability and Workers' Rights. Over the next two-and-a-half years, this initiative will develop a common code and work with participating garment manufacturers – including one or more that produce our apparel – to develop a common code and consistent methods of implementation. Given the large corporate memberships of the multi-stakeholder organizations involved, we believe this is one of our best opportunities to gain industry-wide buy-in on a global solution. We hope that many buyers and garment manufacturers will choose to adopt and implement the final recommendations.

As an interim step, and in light of our membership in ETI and SAI, we are reviewing our own Code of Vendor Conduct against the ETI Base Code and SA8000 standard in 2005.

Managing the Transition to a Post-Quota Environment

Over the past several months, we have been working to develop a better understanding of the likely consequences of post-quota consolidation and what can be done to help mitigate negative effects.

As we discuss earlier in this report, we don't anticipate an immediate migration of all textile and apparel production to a handful of countries. There is strategic value in maintaining a diversified sourcing base, and new safeguard measures and tariff policies are likely to slow consolidation in the near-term.

Still, we are already seeing consolidation in the industry's manufacturing base, and we expect this trend to continue over the next several years.

To help address issues associated with consolidation, we were one of the first companies to join the MFA Forum, a multi-stakeholder effort that has developed a broad set of recommendations to help governments, international institutions, suppliers, NGOs, trade unions and retailers manage the transition to a post-quota environment in a responsible fashion.

As a Forum member, we are committed to exploring alternatives before moving our production. Where possible, we will seek to work with national governments to help them improve labor standards and increase competitiveness. We will monitor our manufacturers for compliance with national laws pertaining to factory closures. And when it does become necessary to exit a country, we will seek to do so in a manner that respects applicable laws, the rights of workers and the needs of affected communities.

Our Global Compliance management team will be working with our sourcing teams in 2005 to explore ways to integrate these practices into our supply chain policies and procedures. We are also reaching out to garment manufacturers to help them understand the importance of social considerations when determining where to operate factories.

Protecting Homeworkers

From an economic and humanitarian perspective, one of the most complex challenges in our industry is finding an effective way to protect the rights and interests of some of the world's most vulnerable garment workers – the "invisible" people who work on a project basis from their homes.

“Homeworkers,” as they are known, perform services ranging from basic stitching and beading to elaborate embroidery and basket weaving. They have been major contributors to the garment industry, and many other industries, for decades.

For a variety of social, cultural and economic reasons, most homeworkers do not work outside their homes or villages. They rely on independent contractors and sub-contractors to bring work to them, and generally have little or no knowledge of the factory or buyer for which they are making products. Because they work alone and often in remote locations, homeworkers may enjoy even fewer protections and benefits than their counterparts who are employed in factories.

In 2004, we joined ETI’s multi-stakeholder working group to begin to address the challenge of protecting these workers. With the cooperation of 13 garment manufacturers who produce apparel for ETI’s members, an India-based ETI research team conducted extensive interviews with homeworkers, contractors, sub-contractors and garment manufacturers, as well as local government, trade union and NGO representatives. The group delivered its first set of research findings in October 2004.

We recognize that working at home is a critical source of income for many people and that we must be careful to ensure that our efforts are balanced and do not result in an unintended loss of jobs. The goal of this work is to ensure that homeworkers are treated fairly. Over the course of the next year, we will be working with our ETI partners to build upon these findings and develop a common set of guidelines to focus our efforts in this area.

EXPANDING OUR PUBLIC POLICY EFFORTS

We recognize that thoughtful public policy advocacy is an important part of our broader efforts to improve labor standards. As mentioned earlier, many stakeholders have told us that they’d like to see us deepen our public policy work.



MFA FORUM: ADDRESSING THE CHALLENGES OF QUOTA EXPIRATION Neil Kearney and Lynda Yanz

In a unique collaboration, a number of brands and retailers, including Gap Inc., international institutions, trade unions and NGOs – the “MFA Forum” – have joined to address the challenges arising from trade liberalization in textiles and clothing as a result of the ending of the Multi-Fibre Arrangement (MFA).

The MFA Forum recognizes that failure to handle, responsibly, the transition to a post-MFA world carries several dangers, including the negative impact on workers of losing critical employment and earnings potential and damage to the reputation of business.

The Forum’s Collaborative Framework for Guiding Post-MFA Action proposes a wide spectrum of actions at both the national and international levels by all actors to ensure equitable development and decent work in the post-MFA world. This guide to dealing with MFA impacts is particularly important for brands and retailers reviewing sourcing strategies.

Brands and retailers must promote decent work by maintaining their current country supply base; when consolidating in-country, ensuring that displaced workers are given first opportunity for re-employment in the consolidated supply chain; and sourcing only from countries that respect core labor standards and suppliers who provide decent work.

Putting all of this into practical action will be a real test of corporate social responsibility on the part of the brands and retailers. We welcome Gap’s involvement in this important initiative.

Neil Kearney and Lynda Yanz were among the founders of the MFA Forum. Mr. Kearney is General Secretary, International Textile, Garment & Leather Workers’ Federation (ITGLWF). Ms. Yanz is Coordinator, Maquila Solidarity Network (MSN).



CENTRAL AMERICA

Central America's proximity to our United States and Canadian operations facilitates communication, reduces transportation costs and accelerates speed to market, which enables us to respond quickly to fluctuations in demand and shifts in trends.

To remain competitive in the post-quota era, however, manufacturers in Central America will have to offset higher operating costs with innovation, greater efficiency and better compliance with labor laws and standards.

To help Central America meet these challenges and grow as a strategic sourcing market, we are actively involved in two programs called Continuous Improvement in the Guatemalan Workplace (CIMGUAW) and Continuous Improvement in the Central American Workplace (CIMCAW). The programs were launched in partnership with USAID, Development Alternatives Inc. (DAI), Timberland, SAI, the Commission for the Verification of Codes of Conduct (COVERCO) and the International Textile, Garment & Leather Workers' Federation (ITGLWF).

CIMGUAW and CIMCAW will provide training on labor standards to factory managers, supervisors, workers and monitors in Guatemala and other Central American countries. We hope to see the programs expand in the coming years to address a larger audience and broader range of topics, such as factory monitoring, additional stakeholder engagement and remediation mechanisms.

We agree that the debate over challenges and disparities due to globalization often overlooks the critical role of the private sector. Although we are still in the process of developing our strategy on public policy outreach, we believe that companies like Gap Inc. can work with government, trade unions, civil society and opinion leaders to develop collaborative approaches and institutional mechanisms to further the public interest and benefit business. We are exploring various projects and partnerships to help fill governance gaps and build greater capacity in transitional economies.

We also believe that, beyond specific initiatives in individual countries, the business community should come together to have a more significant collective impact. To this end, we played a role in the formation of the Business Coalition for Capacity Building (BCCB) in 2003.

A voluntary, cross-industry effort, the BCCB provides a collaborative platform through which companies can work with civil society, government and multilateral lending institutions to address shared concerns and develop innovative approaches to capacity building. The BCCB is focused not only on labor standards, but also on customs and environmental compliance, public health, enforcement of intellectual property rights, supply chain security, and workforce training and education. We are joined in this endeavor by several major U.S. companies. We hope that still other companies will see the benefit of participating, and that together we can make a greater difference in sharing the benefits and responsibilities of global commerce.

THE ROAD AHEAD

Measuring progress at the country, regional or industry level is even more challenging than tracking improvement in individual factories. Still, we've seen encouraging signs that measurable change on a broad scale is possible through collaboration.

There is, perhaps, no better example of this than Cambodia. For several years, the government, garment manufacturers and unions there have actively sought opportunities to partner with buyers and civil society as part of an ongoing effort to improve labor standards and build a stable foundation for the continued growth of the Cambodian garment industry.

Cambodia's government sent a strong signal of its commitment to cross-sector collaboration in 1999, when it signed a bilateral trade agreement with the United States that, among other provisions, created an extensive monitoring program involving the ILO.

Since then, we have participated in a number of collaborative initiatives in Cambodia. We continue to support the ILO's monitoring and remediation efforts, which aim to improve working conditions and boost productivity in Cambodian factories through more worker involvement. In 2004, we provided funding to CARE for a factory-based health program. And most recently, we joined with the International Finance Corporation's Mekong Private Sector Development Facility (IFC/MPDF) to launch Supervisory Skills Capacity Building (SSCB), a new managerial skills training program for 650 factory supervisors.

Challenges remain in Cambodia. But we were pleased by the ILO's decision earlier this year to continue efforts there and by a recent World Bank survey showing that Cambodia's commitment to labor standards is helping it compete in the international apparel market.

We believe Cambodia's inclusive, voluntary approach to collaboration serves as a model for other countries, and we are committed to working with stakeholders from all sectors to help drive similar efforts across the garment industry.

CHINA

In March 2004, we joined with several other brands to begin talking with the China Association of Enterprises with Foreign Investment (CAEFI) – an affiliated body of the Chinese Ministry of Commerce – about opportunities to improve enforcement of China's labor laws at the provincial and local levels.

Today, we are partnering with CAEFI and several companies – including adidas-Salomon, IKEA, Nike and Reebok – to formalize a subcommittee known as the Better Workplace Foundation, which will be open for other companies to join and continue this dialogue on an ongoing basis. The group will also work with provincial labor departments to help factory owners and management understand how better labor standards can help improve the productivity and profitability of Chinese enterprises.

Photo:
Gap Inc. and the IFC/MPDF
launch a new managerial skills
training program in Cambodia.





employees

The Key to Our Success

We want to be a company where people can stretch their capabilities, grow as we grow and build their careers.

One of the things we've learned as we listen to our more than 150,000 employees around the world is that our people want to work for a company that's socially responsible. Our commitment to social responsibility, as described in this report, has become an integral part of who we are at Gap Inc. As one employee said, "It's a wonderful feeling to be part of an organization that believes in doing what's right."

We know that the continued growth of our company depends on such passion, and on the hard work of our employees. We create value for our shareholders by providing a fantastic customer experience and great products. And it takes highly satisfied and engaged employees to exceed our customers' expectations.

That's why we are committed to continually improving the employee experience. We want to be a company where people can stretch their capabilities, grow as we grow and build their careers in an environment that reflects and respects their values. In this challenging and fast-paced industry, we place a priority on listening to our employees and providing a supportive, inspiring environment in which great people can flourish.

AN ETHICAL AND INCLUSIVE WORKPLACE

Gap Inc. has been successful by having a vibrant open-door process where employees can express concerns without fear, by working collaboratively with employees to solve issues that arise, and by ensuring we work together in ways that are consistent with our values.

We are dedicated to creating a workplace in which the rights, the needs and unique contributions of every employee are consistently respected. Just as we hold approved garment manufacturers accountable for complying with all applicable laws and treating workers with dignity and respect, we hold ourselves accountable as well. Our Code of Business Conduct helps ensure that we do business in a responsible way that is consistent with our values. We have absolute respect for our employees' rights, including freedom of association and providing working conditions about which we are proud. We are committed to an environment free from harassment and discrimination. And we are continuing to evolve our processes and communications to ensure a positive work environment and a clear understanding of our employment philosophy.

We also recognize that employees have a critical role to play in creating an ethical and inclusive workplace. As such, we welcome and encourage our employees to be fully informed about our programs and policies, and their options and rights as employees. There are a number of avenues we provide to ensure our employees are heard.

Under our open-door policy, employees are encouraged to raise questions, concerns or suggestions, and to reach out to managers, supervisors and our Human Resources team as needed. In addition, we have a 24-hour confidential hotline that employees – and members of the public – can call anonymously if they suspect a violation of our Code of Business Conduct. In the United States, Canada and Puerto Rico the toll-free number is (866) Gap-Code. Information on how to reach the hotline from other locations is provided in the Corporate Compliance section of www.gapinc.com.

We also recognize the need for ongoing training for managers and employees to ensure all employees adhere to our Code of Business Conduct. To that end, this year, we introduced a required training program called the "Principles of Integrity" to help our employees understand how our Code applies to their work.

"I really appreciate the company's efforts in...making me feel heard, supporting me, protecting me, and reassuring me.... To know that my voice did not go unheard and that Gap Inc. will do what's right is why I continue to appreciate being a part of the Gap family."

Feedback from a Gap Inc. employee who raised concerns about managers at higher levels under the Code of Business Conduct

Just as we serve a diverse base of customers worldwide, we want to reflect and include a broad range of backgrounds, skills and talents at Gap Inc. To us, diversity means respecting visible differences of age, race, gender, nationality, and physical ability, as well as invisible differences such as culture, religion, marital status, sexual orientation, experience and perspective.

In 2004, a council of senior executives throughout the company identified several steps to further increase diversity, including the creation of a Department of Diversity and Inclusion. And this year we are proud to have been honored by the National Association for Female Executives as one of the "Top 30 Companies for Executive Women."

The quality of our work experience depends on the quality of our combined efforts to create a great work environment. By focusing on treating each other with respect and approaching our work relationships with integrity and open-mindedness, we'll continue to be successful in maintaining Gap Inc. as a great place to work.

ATTRACTING AND RETAINING TALENTED PEOPLE

We want people to see Gap Inc. as a place to build their careers. That's why we constantly focus on improving the overall employee experience.



Our aim is to increase satisfaction and retention rates among our teams, and we work hard to provide the training and development opportunities to help employees to be successful in their current roles and to take on new roles in other brands and divisions within the company. One of our goals is to assist store employees who'd like to pursue career opportunities throughout our company, and we seek a healthy mix of experiences and perspectives as we build our teams. Our international initiatives and the upcoming launch of our fourth brand, Forth & Towne, create even more opportunities for our employees, and our job is to recruit, develop and promote employees across Gap Inc.

Enabling people to realize their full potential also requires an open, honest, two-way flow of communication. We are committed to understanding employee issues from a variety of diverse perspectives, and we encourage an open dialogue through formal and informal channels, including surveys, focus groups and our open-door policy. Through our "Pass It On" surveys, for example, we receive quarterly feedback from store managers. Our "Your Voice" survey allows employees to provide anonymous feedback and comments at any time to senior management. And last year, we piloted a survey with a group of employees, which we plan to expand to all employees.

A HOLISTIC APPROACH TO REWARDS

Retaining, motivating and empowering employees also requires the right mix of rewards, tailored to meet the unique needs of people at different levels and at different career and life stages.

We've always viewed compensation as more than simply salary and benefits. In 2004, we launched Rewards@Gap Inc., a program that brings together all the ways we reward and recognize our employees.

Key elements include:

- **Competitive compensation that is linked to performance goals and reflects each employee's contribution to Gap Inc.'s success.** We conduct an ongoing analysis of compensation across the industry and among other companies to ensure that Gap Inc. continues to attract the best employees and reward them competitively.
- **Benefits tailored to the needs and lifestyles of our employees.** In addition to highly competitive health and retirement benefits, we are proud to offer a wide variety of desirable lifestyle benefits, including generous paid-time-off and family leave policies, merchandise discounts of up to 50 percent when employees shop in our stores, tuition reimbursement programs and discounts on personal computers. Through Gap Foundation, we also provide matching gift programs that complement employee charitable contributions for employees in North America, the U.K., and Hong Kong. (See the "Community Involvement" section for additional information about Gap Foundation.)

A new global recognition program, the Founders' Award, honors the philanthropic spirit of Gap Inc.'s founders, Doris and Don Fisher. The award will recognize Gap Inc. employees who are already making a difference in their community – and give them the opportunity to create their own lasting philanthropic legacy. The award winner will receive up to 80 hours of paid time to work with his or her community partner – a nonprofit or non-governmental organization that supports a cause for which they've been involved. This organization will also receive a Gap Inc. grant of up to \$50,000.

OUR PURPOSE, VALUES AND BEHAVIORS

2004 marked our 35th birthday as a company. It also marked the start of a new cultural framework for the company. We call this framework our Purpose, Values and Behaviors (PVB).

PVB is an articulation of why we do what we do, our shared values, how we want to be known as a company, and how we define our behaviors – the actions we must take and the talents we must apply to our work.

The framework starts with a common purpose: “Every day, Gap Inc. honors the original reason for founding this company. We’re passionate that you be you. We make it easy for you to express your personal style throughout your life.”

Supporting our purpose are the values and behaviors that define who we are and how we work. We value **integrity, respect, open-mindedness, quality, and balance**, and we strive to behave in ways that enable us to **explore, create, and exceed ... together**.

Of course, simply articulating the purpose, values, and behaviors of a company doesn’t change things overnight. We started the process of introducing our PVB framework across the entire company late last year, and we’re continuing throughout 2005. It’s a global undertaking requiring both training and leadership. Our leaders will be held accountable for helping their employees live according to our values and for modeling our behaviors each and every day.



- **Creating an environment that energizes people and encourages success.** Our employees will drive our continued success, and we’re working hard to ensure that our culture supports and rewards the behaviors that represent what our company believes in — our Purpose, Values, and Behaviors, which embody a collective spirit of exploration, creativity and teamwork based on integrity, respect and balance. We hold our leaders accountable for taking actions that are consistent with our values, and for ensuring that their teams understand our expectations. In addition to recognition programs in our divisions and brands, we recently began rolling out our Purpose, Values, and Behaviors—an expansive initiative to share our values with all employees. We reached 35,000 employees in 2004, and are scheduled to reach all employees worldwide by the end of 2005.

THE ROAD AHEAD

We are proud of what we’ve accomplished in our first 35 years, but we know more work lies ahead. As we move forward, we will continue working closely with our employees to create the kind of environment where they can build their careers and help us achieve exceptional results.



Photo:
Heather Schafer volunteers at an event to give away Gap jackets to children. When Denver-area stores were closed for renovations, employees volunteered with local nonprofits while continuing to receive pay.

With that in mind, we're now reorganizing and strengthening our volunteer program and putting more resources behind the community projects in which our store and corporate employees are involved. Our primary focus, both for funding and for volunteerism, is underserved youth, but we also encourage employees to pursue the causes and issues that have the greatest meaning to them as individuals.

VOLUNTEERING AROUND THE WORLD

In 2004, Gap Inc. employees spent approximately 73,000 hours volunteering. Below are descriptions of a few of the projects in which they participated. Additional examples can be found on www.gapinc.com.

Stollery Children's Hospital (Edmonton, AB, Canada) —

A team of employees has made an ongoing commitment to serve Stollery's young patients and their families. Stollery provides complex and specialized services such as cardiac surgery and organ transplants. Employees visit with patients, provide respite for caregivers and volunteer at Stollery's fundraising events.

Breakthrough Collaborative (Hong Kong) —

Mentors in our Hong Kong sourcing office spend two weekends per month helping motivated, low-income students improve their English skills.

Colorado in Action (Denver, CO) —

For ten weeks in early 2005, a number of Gap stores in Colorado were closed for renovations. During this period, store employees remained on company payroll and divided their time between training and volunteering with nonprofits in the area. More than 60 community organizations hosted Gap employees, who volunteered nearly 10,000 hours.

The Door (New York, NY) —

During the academic year, employees from 30 Old Navy, Gap and Banana Republic stores taught a job readiness course to low-income teenagers affiliated with The Door, an educational and social services agency that serves 7,500 adolescents per year.

community involvement

"I serve as a 'job coach' to help prepare teenagers for the world of work. The youth are ready to embrace new opportunities and responsibilities...I find the experience so rewarding that I always wonder who gets more out of it – the teens or me!"

Chase Perrett, Human Resources Supervisor, Old Navy

Since the Gap Foundation was established in 1977, Gap Inc.'s community outreach has taken many forms, including employee volunteer efforts, Gap Foundation grants, in-kind donations and consumer promotions.

In 2004, we made \$33 million in cash and in-kind donations. We also stepped back to reassess the way we serve our communities. While financial gifts and product donations will remain an important part of our outreach efforts, we realize that the contributions we make through the time, talent and passion of our employees can be even more valuable.

“Thanks to Community Corps, 2004 was a year that changed me forever. I helped build a home for a family in need. The homeowner told us he and his family were so blessed but I was thinking it was all of us who were truly blessed to have been part of such a wonderful experience.”

Kathleen Clarke, Customer Relations Specialist, Gap Inc.

We were pleased to see increases in employee participation both in volunteerism and financial contributions from 2003 to 2004 and look forward to even higher numbers in 2005.

	2003 Participation		2004 Participation	
			Total Employee Contributions 2003	Total Employee Contributions 2004
Financial Donations	8,105 employees	8,822 employees	\$1,707,319	\$2,752,972 61% increase
Volunteer Hours	3,882 employees	7,766 employees	21,965 hrs.	72,937 hrs. 232% increase

RECOGNIZING VOLUNTEERS

To encourage and support volunteers and to acknowledge that employees contribute in different ways, our Gap Giving program matches employee contributions of both time and money. We also recognize employees who have demonstrated a commitment to their communities through two unique programs:

Community Corps takes teams of employees on homebuilding trips with Habitat for Humanity. To date, more than 300 employees have participated in these trips, and we've built 30 homes in the United States and Central America. Gap Foundation covers all trip costs, including all expenses associated with building the homes.

The Founders' Award, as described on page 44, builds upon the philanthropic legacy of company founders Doris and Don Fisher and recognizes employee commitment and partnership with a particular nonprofit agency or non-governmental organization.

CONSUMER PROMOTIONS

Throughout the year, our brands partner with charities and promote their causes through in-store customer promotions. During the 2004 holiday season, Gap introduced “Share the Warmth,” a campaign featuring the GapKids character Brannan the Bear. In November and December, a limited edition Brannan the Bear clothed in a Gap Warmest Jacket was available for sale online and in Gap, GapKids and babyGap stores throughout North America. 100 percent of proceeds went directly to providing more than 73,000 Gap Warmest Jackets to children in need.

SOUTH ASIA TSUNAMI RELIEF EFFORTS

After the devastating earthquake and tsunami in South Asia, Gap Foundation double-matched employee contributions to designated agencies with a gift of \$1.3 million. Gap Foundation pledged an additional \$1 million to support immediate relief and longer-term recovery in the impacted communities, bringing the total contribution to \$2.3 million. To encourage contributions from our customers, our web sites featured a page where customers could learn more about the disaster and how they could contribute to relief efforts. In addition, Gap collaborated with Sarah Jessica Parker to create and sell a t-shirt with the message, “Send love around the world.” The proceeds from t-shirt sales, which totaled \$100,000, were donated to UNICEF for tsunami recovery efforts.





environment, health and safety

In addition to maintaining compliance with applicable laws and regulations, we are constantly exploring ways to reduce our environmental impact, keep our workplaces safe and ensure that our products can be enjoyed with confidence.

Photo:
A worker in an Indian water treatment facility ensures the plant's wastewater system is operating properly.

We understand that our business affects the environment, as well as the health and safety of our employees and customers. In addition to maintaining compliance with applicable laws and regulations, our teams are constantly exploring ways to reduce our impact on the environment, keep our workplaces safe and ensure that our products can be enjoyed with confidence.

ENVIRONMENT

In 1999, we began implementing an environmental management system in facilities we own and operate to help ensure that we are consistently in compliance with local, state and federal regulations.

We have always believed, however, that our responsibilities extend beyond legal requirements. We are currently working on a strategic plan to develop more environmentally friendly ways of doing business. As part of this effort, last year we hired a consulting firm, CH2M HILL, to help us conduct a high-level assessment of our environmental impact at each stage of our product lifecycle – from raw materials to disposal of garments.

This assessment, which is summarized in the illustration below, provided us with two important insights. First, it confirmed that we are already concentrating, as we should be, on the areas where we have the greatest opportunities to make a difference: packaging use and disposal, energy consumption, and waste and recycling. Second, it highlighted some of the serious sustainability challenges facing the garment industry as a whole.

Going forward, we will continue to focus on key areas where we have direct control, while also looking for opportunities to work with industry partners on problems – such as water quality – that require collaborative solutions. The following examples illustrate some of the progress we made in 2004.

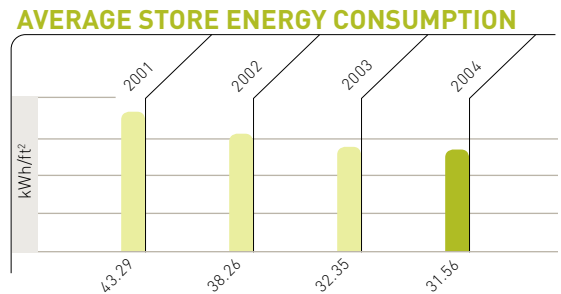
Packaging Use and Disposal

As a service to our customers, Old Navy stores began selling garments on size-specific hangers in 2003. Last year, after realizing that fewer customers than expected were taking hangers home, we began exploring ways to recycle or reuse them. We found that by redesigning the hangers, we could make them easier to recycle. We are now changing their composition and plan to pilot a recycling program later this year.

We are also using our scale to encourage non-merchandise vendors to adopt more environmentally sound practices. In 2004, our brands began working with our corporate sourcing team to leverage our buying power when purchasing print services for marketing materials. In choosing vendors, we not only consider price, but also look at factors such as the use of recycled content, the type of bleach and dyes used, and the vendor’s support for sustainable forestry. By working with vendors who share our commitment in these areas, we hope to improve the environmental attributes of the paper we purchase over time.

Energy Consumption

We continue to reduce energy consumption in our U.S. stores. In 2004, our average energy consumption decreased 2.4 percent from 2003 to 31.56 kilowatt hours per square foot. On a per square foot basis, we have achieved a 27 percent reduction since 2001. We will continue to look for additional energy conservation opportunities in the coming year.



OUR IMPACT ON THE ENVIRONMENT

In 2004, we worked with CH2M HILL to assess our environmental impact throughout the product life cycle. We’ve confirmed that, in the short term, we should focus our efforts on the areas over which we have direct control and, therefore, the biggest opportunity to make a difference.

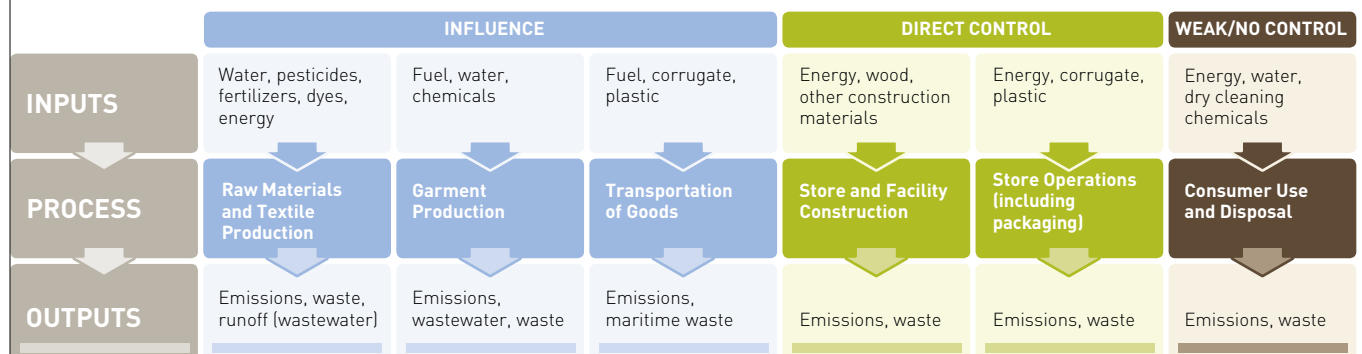




Photo: Proper wastewater management requires that effluent go through various stages of treatment before it is discharged.

In last year's report, we announced that we joined the U.S. Environmental Protection Agency's (EPA) Climate Leaders program, which works with companies to reduce their greenhouse gas emissions on a voluntary basis. In 2004, we worked with the EPA's consultant, Econergy, to develop our Climate Leaders baseline inventory using our energy consumption data for 2003. This is an important first step in developing our Climate Leaders goals and measuring our progress over time.

Waste and Recycling

A number of our environmental programs focus on reducing waste generated by our operations. We are always looking for ways to eliminate, reuse or recycle potential waste.

Cardboard is a major source of waste for many retailers, including Gap Inc. In the first half of 2004, our Logistics division evaluated opportunities to reduce, reuse and recycle the cardboard boxes used to transport products to our stores. The amount of cardboard that was reused or recycled varied greatly among our 13 distribution facilities, with some reusing up to 77 percent of their boxes. In 2004, we estimate that we reused more than 10 million boxes and recycled 38,000 tons of cardboard and paper. Still, we know we can do better. This year, we are encouraging all distribution centers to increase reuse of their boxes, which could cut our cardboard supply in half and save the company an estimated \$3.5 million annually.

In the cafeterias at our San Francisco Bay Area headquarters offices, we have introduced a composting program through which we divert approximately 19,000 pounds of waste from landfills each month. This waste is instead turned into nutrient-rich topsoil.

Water Quality

To create the washes and rinses customers desire, denim products go through an extensive dyeing and treatment process that often involves chemicals. If left untreated, wastewater discharged from denim laundries can adversely affect the environment and the communities in which laundries operate.

We know how important it is to protect the world's water supply, but our experience has shown us that improving water quality is a complex challenge that often requires experimentation and collaboration.

After several attempts to implement water quality programs in the past, we partnered with CH2M HILL in 2003 to re-launch a pilot program designed to measure denim laundries effluent against Business for Social Responsibility's (BSR) Water Quality Guidelines. In 2004, we selected 20 laundries in 10 countries to participate in this program, with the ultimate goal of including all laundries that work on our products.

Four of the 20 participating laundries failed to meet BSR's strict standards. In three of these cases, we were able to prescribe corrective measures because the factories discharge directly into water systems. The fourth case, however, was not so simple because the laundry legally discharges into a Publicly Owned Treatment Works (POTW), whose policies we cannot influence. We are now working with the BSR Apparel Water Quality Working Group to explore ways to extend our reach beyond facilities directly involved in producing our garments and to improve standards in POTWs that do not meet our expectations.

HEALTH AND SAFETY

We are committed to protecting our employees and customers through the enforcement of workplace safety protocols and thorough product testing.

Workplace Health and Safety

In 2004, we reduced our worker injury rate by 9 percent relative to 2003, with 4.43 injuries per 200,000 hours worked. While pleased with this reduction, we continue to explore better processes and stricter enforcement of safety protocols in all of our facilities:

Retail Stores — Our Risk Management department partners with other corporate departments and store employees to improve the store experience by identifying and mitigating potential safety concerns.

Distribution Centers — To reduce the number of workplace injuries in our distribution centers, we maintain comprehensive safety programs and follow rigorous fire protection standards.

Offices — Since musculoskeletal injuries are the most common type of office injury, we have a trained team of ergonomic representatives to help employees create a comfortable and productive work environment.

Product Integrity

More than 30 full-time employees across the world are directly responsible for ensuring that our products meet strict quality and safety standards throughout the product pipeline, from concept through production. This team also provides training to others who are in a position to influence product safety or compliance.

Our product quality and safety standards meet or exceed the requirements of the most stringent product legislation in the markets where we sell products. We require that products be tested for safety and regulatory compliance prior to reaching our stores. We work with independent consumer product testing laboratories to advise us on product standards and conduct product testing in their facilities. Our testing protocols cover a wide range of product characteristics, including small parts or choking hazards, mechanical hazards such as sharp points on trims, and flammability of fabrics.

Because consumer safety and confidence in our products is of the highest priority, we invest substantial resources in establishing and refining standards, procedural controls, and checks and balances to guard against product failures.

Cruelty-Free Personal Care Products

Like our garments, Gap Inc. personal care products such as perfumes, lotions and sunscreens undergo rigorous testing. We do not, however, permit testing on animals, and require that our manufacturers refrain from this practice as well.

WORKPLACE HEALTH AND SAFETY

	Retail Stores		All Other Locations		Total	
	2003	2004 ²	2003	2004 ²	2003	2004 ²
No. of Gap Inc. Business Partners (Employees)	111,853	117,063	42,834	45,950	154,687	163,013
Workers' Comp. Claims ¹	2,650	2,431	361	303	3,011	2,734
Time Loss Claims ¹	756	570	115	34	871	604
Hours of Exposure	109,160,518	107,193,309	14,823,605	16,297,716	123,984,123	123,491,024
Rate of Injury per 200,000 Hours Worked	4.86	4.54	4.87	3.72	4.86	4.43
Experience Modification Factor ³					0.54	0.55

1 Claims data represent domestic locations.

2 Claims data for fiscal year 2004 may change as new claims may be filed after the fiscal year end or reopened for prior year injuries.

3 The Experience Modification Factor is an assigned rate that compares the number and cost of a company's Workers' Compensation claims with those of peer companies in their industry. A rating of "1.0" represents average performance for the industry. Gap Inc.'s rating of 0.55 is lower and, therefore, better than the industry average.

STATEMENT FROM THE PUBLIC REPORTING WORKING GROUP

Corporations like Gap Inc. stand in a critical place in the world. Global supply chains take companies into nearly every corner of the developing world, placing them in the position of buyer, mediator and labor rights consultant. Because Gap earns substantial revenues from its global supply chain, it bears important responsibility for workers who manufacture its products. It has an opportunity to improve the lives of thousands of individuals by its responsible actions.

We believe that Gap has made substantial progress in focusing on the connections between its core business, systemic global concerns and workers' lives. We commend Gap for recognizing that brands and retailers contribute to poor working conditions through unreasonable expectations regarding speed of delivery and cost, inefficient purchasing practices, and inconsistent labor standards and means of enforcement. Simple changes in sleeve length or shirt color can drive unreasonable conditions on the factory floor as workers are pushed to meet changing demands.

The information provided in this report – specific data points, plus frank discussion of the systemic issues driving recurring problems – can empower both investors and consumers to make more responsible choices. We must also recognize that Wall Street's narrow focus on quarterly earnings contributes to the problem.

This report touches on Gap's response to the expiration of the Multi-Fiber Arrangement (MFA) – a significant shift in the global supply system that can have devastating consequences in some developing economies. We encourage Gap to share more information about its approach, while continuing to work with others to mitigate the impact of this shift.

As Gap's new compliance database becomes operative, we expect future reports to provide additional specific and aggregate data to assess factory performance while relating the data to systemic issues. We would like to see a future report highlight the state of the U.S. garment industry. We encourage Gap to broaden the scope of its reporting to address the full range of issues covered by the Global Reporting Initiative (GRI). We look forward to comparable reports from other companies.

We hope that this report will deepen dialogue among corporations, consumers and investors – all of us who are players in this global system – about the impact of our decisions on the lives of those who do not have the luxury to invest or to change their wardrobe every season. This is the broader dialogue that socially responsible investing seeks to foster.



Adam Kanzer, Esq., General Counsel and Director of Shareholder Advocacy, Domini Social Investments LLC



Alya Z. Kayal, Esq., Manager of Research and Policy, Calvert Group Ltd.



Conrad MacKerron, Director, Corporate Social Responsibility Program, As You Sow Foundation



Ruth Rosenbaum, TC, Ph.D., Executive Director, Center for Reflection, Education and Action (CREA)



David M. Schilling, Director, Global Corporate Accountability Program, Interfaith Center on Corporate Responsibility

GRI Index/U.N. Global Compact Index

The Global Reporting Initiative's (GRI) *Sustainability Reporting Guidelines* provide a consistent framework for reporting on general economic, environmental and social indicators. They serve as a useful tool for readers to compare performance over time, as well as between companies. Similarly, the principles of the U.N. Global Compact outline a set of criteria against which member companies can assess their performance.

We have included the following index in this year's report because we see both GRI and the Global Compact principles as informative frameworks in our evolving approach to CSR. While we have not been able to report against every indicator or principle, we hope to expand our reporting as our CSR policies and programs become more developed.

It is important to note that GRI and the Global Compact do not yet encompass some of the most material issues in the apparel industry – in particular, management of human rights issues and labor standards within supply chains. As a result, we have included a significant amount of data and other information in this report about our ethical sourcing practices that go beyond the GRI and Global Compact guidelines.

We believe that greater standardization of reporting is critical to promoting transparency and accountability within our industry. It is also an important step towards ensuring that human rights are broadly respected throughout supply chains. To this end, we are participating in GRI's working group to develop specific reporting indicators for the apparel and footwear sectors. For more information, please see page 37.

GRI INDICATOR	U.N. GLOBAL COMPACT PRINCIPLE	REPORT SECTION ¹	PAGE(S)
Vision & Strategy			
1.1	Vision and strategy for sustainable development	Not applicable	Forging Sustainable Solutions 8-11
1.2	Statement from the CEO	Not applicable	Letter from Paul Pressler 2-3
Profile			
2.1	Name of reporting organization	Not applicable	FY2004 in Review 4-5
2.2	Major products, services, and brands	Not applicable	FY2004 in Review 4-5
2.3	Operational structure	Not applicable	Form 10-K ²
2.4	Description of major divisions	Not applicable	FY2004 in Review 4-5
2.5	Location of Gap Inc. operations	Not applicable	Regional Breakdown of Apparel Sourcing Countries Form 10-K ² 6-7
2.6	Nature of ownership	Not applicable	Form 10-K ²
2.7	Nature of markets served	Not applicable	Not reported
2.8	Scale of reporting organization	Not applicable	Form 10-K ²
2.9	Key stakeholders	Not applicable	Forging Sustainable Solutions 8-11 Progress Through Partnerships 34-41
2.10	Contact person for report	Not applicable	Forging Sustainable Solutions 11
2.11	Reporting period	Not applicable	About This Report 58
2.12	Date of previous report	Not applicable	About This Report 58
2.13	Reporting boundaries	Not applicable	About This Report 58
2.14	Significant organizational changes	Not applicable	Not applicable
2.15	Basis for reporting on joint ventures	Not applicable	Not applicable
2.16	Explanation of re-statements of information provided in earlier reports	Not applicable	Not applicable
2.17	Decisions not to apply GRI principles	Not applicable	GRI Index/U.N. Global Compact Index 53
2.18	Criteria/definitions used	Not applicable	Forging Sustainable Solutions 8-11 The Art of Factory Monitoring 14-25 Glossary 56-57
2.19	Significant changes in measurement methods from previous years	Not applicable	Not applicable
2.20	Policies and practices to provide assurance	Not applicable	Gap Inc. Assessment and Recommendations (SAI) 26 Gap Inc. Program and Training Needs Assessment (Verité) 27 Progress Through Partnerships 34-41 Public Reporting Working Group Statement 52 About This Report 58
2.21	Independent assurance for report	Not applicable	Not reported
2.22	Obtaining additional information	Not applicable	Forging Sustainable Solutions 11

¹ Due to space constraints, this report does not include all available information corresponding to certain GRI indicators. Where relevant, this index provides links to the company web site where more information can be found.

² Form 10-K refers to the company's 2004 Form 10-K, filed on March 28, 2005 with the Securities and Exchange Commission.

GRI INDICATOR	U.N. GLOBAL COMPACT PRINCIPLE	REPORT SECTION ¹	PAGE(S)	
Governance Structure & Management Systems				
3.1	Gap Inc. governance structure	Not applicable	Form 10-K ²	
3.2	Percentage of independent, non-executive directors	Not applicable	Form 10-K ²	
3.3	Process for determining Board member expertise	Not applicable	Not reported	
3.4	Board-level identification and management of risk	Not applicable	Not reported	
3.5	Executive compensation and company goals	Not applicable	2005 Proxy Statement	
3.6	Organizational structure for economic, environmental, and social policies	Not applicable	Not reported	
3.7	Mission and values statements, internally developed codes of conduct	Not applicable	The Art of Factory Monitoring Employees Gap Inc. Code of Business Conduct	22-23 45
3.8	Mechanisms for shareholders to provide recommendations	Not applicable	Not reported	
3.9	Identification and selection of major stakeholders	Not applicable	Progress Through Partnerships	34-41
3.10	Stakeholder consultation	Not applicable	Gap Inc. Assessment and Recommendations (SAI) Gap Inc. Program and Training Needs Assessment (Verité) Progress Through Partnerships Statement from the Public Reporting Working Group	26 27 34-41 52
3.11/12	Information generated from stakeholder consultations and its use	Not applicable	2004-06 Goals Gap Inc. Assessment and Recommendations (SAI) Gap Inc. Program and Training Needs Assessment (Verité) Progress Through Partnerships Statement from the Public Reporting Working Group	12-13 26 27 34-41 52
3.13	Precautionary principle	Principle 7: Businesses should support a precautionary approach to environmental challenges	Not reported	
3.14	Voluntary principles and other initiatives to which Gap Inc. subscribes or endorses	Not applicable	Progress Through Partnerships	34-41
3.15	Principle memberships	Not applicable	Progress Through Partnerships	34-41
3.16/17	Managing upstream and downstream impacts	Not applicable	Integrating Labor Standards into Our Business Practices	28-33
3.18	Major decisions on operational changes	Not applicable	Integrating Labor Standards into Our Business Practices	28-33
3.19	Programs and procedures pertaining to economic, environmental, and social performance	Not applicable	Global Map of Initiatives Forging Sustainable Solutions The Art of Factory Monitoring Integrating Labor Standards into Our Business Practices Progress Through Partnerships Employees Community Involvement Environment, Health and Safety	6-7 8-11 14-25 28-33 34-41 42-45 46-47 48-51
3.20	Certification of management systems	Not applicable	Integrating Labor Standards into Our Business Practices	30
Economic Performance Indicators				
EC1	Net sales	Not applicable	FY2004 in Review	4
EC2	Geographic breakdown of markets	Not applicable	Form 10-K ²	
EC3	Cost of materials purchased	Not applicable	Not reported	
EC4	Contracts paid by agreed terms	Not applicable	Not reported	
EC5	Total payroll and benefits	Not applicable	Not reported	
EC6	Distribution to capital providers	Not applicable	Form 10-K ²	
EC7	Increase/decrease in retained earnings	Not applicable	Form 10-K ²	
EC8	Total sum of taxes paid	Not applicable	Form 10-K ²	
EC9	Subsidies received	Not applicable	Not reported	
EC10	Community donations	Not applicable	FY2004 in Review	5
EC11	Supplier breakdown	Not applicable	Regional Breakdown of Apparel Sourcing Countries	6-7
Environmental Performance Indicators³				
EN1	Total materials use	Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility	Not reported	
EN2	Percentage of waste materials used	Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility	Not reported	
EN3	Direct energy use	Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility	Environment, Health and Safety	49
EN4	Indirect energy use	Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility	Not reported	
EN5	Total water use	Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility	Not reported	
EN6	Biodiversity-rich habitats	Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility	Not reported	
EN7	Biodiversity impacts	Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility	Not reported	
EN8	Greenhouse gas emissions	Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility	Not reported	
EN9	Use and emissions of ozone-depleting substances	Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility	Not reported	
EN10	NOx, SOx, and other air emissions	Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility	Not reported	

³ We recognize that our reporting against GRI environmental indicators is particularly limited this year. Still, we have included this section in the index because we see the GRI indicators as a helpful framework to help evolve our environmental program, and we hope to be able to report more information in future reports.

GRI INDICATOR	U.N. GLOBAL COMPACT PRINCIPLE	REPORT SECTION ¹	PAGE(S)
Environmental Performance Indicators, continued			
EN12 Significant discharges to water	Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility	Environment, Health and Safety	50
EN13 Significant spills	Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility	Not reported	
EN14 Environmental impact of products and services	Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility	Environment, Health and Safety	49
EN15 Reclaimable product after useful life	Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility	Not reported	
EN16 Incidents and fines for environmental non-compliance	Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility	Not reported	
EN17 Initiatives to use renewable energy sources and to increase energy efficiency	Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies	Environment, Health and Safety	48-51
Social Performance Indicators			
LA1 Breakdown of workforce	Not applicable	Not reported	
LA2 New employment creation and average turnover	Not applicable	Not reported	
LA3 Employees represented by independent trade union organizations	Not applicable	Not reported	
LA4 Policy and procedures relating to employee consultation	Not applicable	Not reported	
LA5 Occupational accidents and diseases	Not applicable	Environment, Health and Safety	51
LA6 Formal joint health and safety committees	Not applicable	Not reported	
LA7 Injury, lost day, and absentee rates	Not applicable	Environment, Health and Safety	51
LA8 Policies or programs on HIV/AIDS	Not applicable	Global Map of Initiatives	7
LA9 Average hours of training per employee	Not applicable	Not reported	
LA10 Equal opportunities policies, programs, and systems	Principle 6: Businesses should support the elimination of discrimination in respect of employment and occupation	Gap Inc. Code of Business Conduct	
LA11 Composition of senior management	Principle 6: Businesses should support the elimination of discrimination in respect of employment and occupation	Form 10-K ²	
LA12 Employee benefits beyond those legally mandated	Not applicable	Employees	44-45
HR1 Policies and procedures on human rights	Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights Principle 2: Businesses should make sure that they are not complicit in human rights abuses	The Art of Factory Monitoring Integrating Labor Standards into Our Business Practices Progress Through Partnerships	14-27 28-33 34-41
HR2 Evidence of human rights consideration in business decisions	Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights Principle 2: Businesses should make sure that they are not complicit in human rights abuses	The Art of Factory Monitoring Integrating Labor Standards into Our Business Practices Progress Through Partnerships	14-27 28-33 34-41
HR3 Policies and procedures to address human rights performance within supply chain	Principle 2: Businesses should make sure that they are not complicit in human rights abuses	Forging Sustainable Solutions The Art of Factory Monitoring Integrating Labor Standards into Our Business Practices Progress Through Partnerships	8-11 14-27 28-33 34-41
HR4 Policy, procedures, and monitoring to prevent discrimination	Principle 6: Businesses should support the elimination of discrimination in respect of employment and occupation	The Art of Factory Monitoring Employees Gap Inc. Code of Business Conduct	14-27 42-43
HR5 Policy, procedures, and monitoring on freedom of association	Principle 3: Businesses should uphold freedom of association and the effective recognition of the right to collective bargaining	The Art of Factory Monitoring Employees	14-27 42
HR6 Policy, procedures, and monitoring on child labor	Principle 5: Businesses should support the effective abolition of child labor	The Art of Factory Monitoring	18, 21-23
HR7 Policy, procedures, and monitoring on forced labor	Principle 4: Businesses should support the elimination of all forms of forced and compulsory labor	The Art of Factory Monitoring	18, 21-23
S01 Policy, procedures, and monitoring on community impact	Not applicable	Not reported	
S02 Policy, procedures, and monitoring on bribery and corruption	Principle 10: Businesses should work against all forms of corruption, including extortion and bribery	Gap Inc. Code of Business Conduct	
S03 Policy, procedures, and monitoring on political lobbying and contributions	Not applicable	Gap Inc. Code of Business Conduct	
S04 Awards received for social, ethical and environmental performance	Not applicable	Not reported	43
S07 Policy, procedures, and monitoring to prevent anti-competitive behavior	Not applicable	Gap Inc. Code of Business Conduct	
PR1 Customer health and safety in product use	Not applicable	Environment, Health and Safety	51
PR2 Policy, procedures, and monitoring on product information and labeling	Not applicable	Not reported	
PR3 Policy, procedures, and monitoring on consumer privacy	Not applicable	Not reported	

Glossary

Business Coalition for Capacity Building (BCCB)

A private, cross-industry coalition of companies that works with governments, international organizations and civil society to advocate for effective capacity-building in the developing world.

Business Leaders Initiative on Human Rights (BLIHR)

A program that assists the private sector to further integrate human rights standards into business practices and policies. For more information, visit www.blihr.org.

Business for Social Responsibility (BSR)

A global organization that helps member companies achieve success in ways that respect ethical values, people, communities and the environment. For more information, visit www.bsr.org.

CH2M HILL

A multinational firm providing engineering, construction, operations, communications, security, environmental, and related services to public and private clients in numerous industries. For more information, visit www.ch2m.com.

Climate Leaders

A voluntary U.S. Environmental Protection Agency industry-government partnership that works with companies to develop a comprehensive climate change strategy. Partners complete an annual greenhouse gas inventory and set a long-term goal to reduce emissions.

Code of Business Conduct

Gap Inc.'s internal ethics code which governs business practices and is designed to help the company and its employees avoid conflicts of interest, achieve compliance with laws, and protect company assets, including employees and properties.

Code of Vendor Conduct (COVC)

Basic requirements set forth by Gap Inc. that all manufacturers and factories must be able to meet in order to do business with the company. The Code provides the foundation for Gap's ongoing evaluation of a manufacturer's employment practices and environmental compliance.

Ethical Trading Initiative (ETI)

An alliance of companies, NGOs, and trade union organizations committed to working together to identify and promote ethical trade. For more information, visit www.ethicaltrade.org.

Freedom of association

As defined in the Gap Inc. Code of Vendor Conduct, the right of workers to lawfully join associations of their own choosing, peacefully associate, organize or bargain collectively.

Global Compliance

The Gap Inc. department responsible for enforcing the company's Code of Vendor Conduct in the manufacturing facilities that produce its apparel and for stakeholder engagement in the area of labor standards and working conditions.

Global Reporting Initiative (GRI)

A multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable sustainability reporting guidelines. For more information, visit www.globalreporting.org.

Homeworkers

Garment workers who work in their homes or villages due to social, cultural and economic reasons.

Hong Kong Productivity Council (HKPC)

A multidisciplinary organization established by statute in 1967 to promote increased productivity and the use of more efficient methods throughout Hong Kong's business sectors. For more information, visit www.hkpc.org.

Impactt

A U.K.-based consultancy group that works with companies, organizations and individuals to develop business practices which extend the number of people who benefit from international trade and investment. For more information, visit www.impacttlimited.com.

Independent monitoring

Ongoing monitoring of working conditions conducted by local nonprofit, civil society organizations at the request of companies or international organizations. Independent monitoring groups usually report their findings publicly.

International Labour Organization (ILO)

The U.N. specialized agency that seeks the promotion of social justice and internationally recognized labor rights. For more information, visit www.ilo.org.

Joint Initiative on Corporate Accountability and Workers' Rights

A collaboration between six multi-stakeholder organizations to work with garment manufacturers with the aim of developing a common code of factory labor standards and consistent methods of implementation and monitoring. For more information, visit www.jo-in.org.

Multi-Fiber Arrangement (MFA)

An internationally negotiated system of quotas on textile and apparel outside the rules set out in the General Agreement on Tariffs and Trade (GATT) which allowed importing signatory countries to apply quantitative restrictions on textile imports when they considered them necessary to prevent market disruption, even when such restrictions were otherwise contrary to GATT rules. Under the Uruguay Round agreement, MFA quotas were phased out at the end of 2004.

Non-governmental organizations (NGOs)

National, international and community-based groups that raise awareness about social, environmental, community and human rights issues.

Public Reporting Working Group

A group of stakeholders with whom Gap Inc. has worked since late 2002 to explore opportunities for greater transparency and increased sustainability of our work. This working group is comprised of Domini Social Investments (www.domini.com), the Calvert Group (www.calvertgroup.com), the As You Sow Foundation (www.asyousow.org), the Center for Reflection, Education and Action (www.crea-inc.org), and the Interfaith Center on Corporate Responsibility (www.iccr.org).

Quota

A restriction on an export category such as those established by the Multi-Fiber Arrangement for textiles and garments. This particular quota system was lifted on January 1, 2005.

Social Accountability International (SAI)

A nonprofit organization dedicated to the development, implementation and oversight of voluntary, verifiable social accountability standards. SAI developed the SA8000 standard, which covers all widely accepted international labor rights and requires a factory-level management system to ensure ongoing improvement. For more information, visit www.sa-intl.org.

Sourcing

The process by which Gap Inc. selects and places orders with manufacturers around the world to produce the merchandise sold in its stores.

Stakeholders

Individuals and groups including NGOs, unions, governments, suppliers, shareholders and employees who have a vested interest in the way companies conduct their business.

Uniform code of conduct

A standard code of vendor conduct used across an industry. This is a goal of many multi-stakeholder groups.

Vendor Compliance Officer (VCO)

A member of Gap Inc.'s Global Compliance department who monitors working conditions of manufacturers producing goods for the company.

Verité

An independent, nonprofit social auditing and research organization whose goal is to ensure that people worldwide work under safe, fair and legal working conditions. For more information, visit www.verite.org.

ABOUT THIS REPORT

Scope — This report discusses Gap Inc.'s domestic and international operations and addresses our efforts in the areas of supply chain labor standards, employees, community involvement and the environment, health and safety. For information on corporate governance, please visit www.gapinc.com.

Reporting Year — Data included in this report reflect activities during Gap Inc.'s fiscal year 2004 (February 1, 2004, through January 31, 2005), unless otherwise noted.

Previous Report — Gap Inc.'s 2003 Social Responsibility Report is available online at www.gapinc.com.

Reporting Assurance

While we continue to explore more formal procedures, we believe that candid feedback from a broad range of stakeholders is currently the best way to ensure the accuracy and relevance of the information we report. The assurance process used in the development of this report included the following:

- **Stakeholder Outreach Sessions** — In Fall 2004, we convened two outreach sessions—one in Washington, D.C. and the other in London—to solicit feedback on our programs and our approach to reporting.
- **External Program Verification** — We invited SAI and Verité to examine our Global Compliance program and have included summaries of their assessments in this report (pp. 26-27).
- **Public Reporting Working Group** — Members of our Public Reporting Working Group (p. 52) have been working with us since late 2002 to develop our reporting procedures and drive greater levels of transparency in our communications.

Global Reporting Initiative

Although we are not in full accordance with the GRI *Sustainability Reporting Guidelines*, we view its principles and indicators as tools that will help us evolve our programs. Please see the appendix for a full list of GRI indicators and the sections of this publication in which they apply.



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