

Gap Inc.
2007/2008 Social
Responsibility Report
Full Report

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Embracing our Responsibility

Full Section

EMBRACING OUR RESPONSIBILITY | [Overview](#)

What does it mean to be a socially responsible company?

We believe it means going beyond the basics of ethical business practices to embrace a broader, deeper responsibility to people and the planet. We also believe the choices we make say a lot about our company. We're not perfect, but we're committed to following a simple principle: Do what's right.

In fact, doing what's right is one of the cultural pillars of our company. It inspires our employees and supports retention and recruiting efforts. It promotes innovation and creativity, as we find new ways to use resources more wisely. And it motivates our customers in today's socially conscious marketplace.

Even in a time of unprecedented economic challenges, acting responsibly is a compass by which we run our business. It informs our decisions and focuses the daily efforts of thousands of people within Gap Inc. and beyond. We know from experience that it brings sustained, collective value to our employees, customers, shareholders, suppliers and society.

In the two years since our last report, many of our ideas for creating change have become reality — from installing a one-megawatt solar array at one of our distribution centers and creating more sustainable packaging to launching a new system that makes better use of all the data we gather on factory working conditions.

As our understanding of issues and opportunities evolves, so does our work. We continue to seek new and better ways to care for our human and natural resources.

August 2009

Doing what's right. At Gap Inc., it's more than words on paper. It's how we've approached our business ever since the first Gap store opened its doors 40 years ago.

From our inception, our founder Don Fisher urged us to make a difference "beyond just selling clothes."

This legacy and passion shapes the actions of our 134,000 employees. As I travel around the world to our stores and the factories where our products are made, there's a sense of pride in knowing that we take our commitment to social responsibility seriously.

Yet we know there is still more work ahead of us.

This report — our first completely online — details the progress we've made in 2007 and 2008. You'll find the details and transparency you've come to expect from us about our global operations and a monitoring system that enabled us to inspect 99 percent of the factories that produced our clothes last year. Along the way, we've strived to address many topics head-on, including the incidence of child labor at an unauthorized vendor two years ago.

“As I travel around the world to our stores and the factories where our products are made, there's a sense of pride in knowing that we take our commitment to social responsibility seriously.”

Our update on our environmental efforts is more expansive and describes work underway at each of our brands to make products in a more sustainable manner. Across our facilities, distribution centers and stores, we've also made progress in reducing our energy usage that helped us cut our greenhouse gas emissions by 20 percent from 2003 to 2008.

We produced more than 70 million jeans last year. We also instituted a clean water initiative over the last few years that requires the facilities that launder our denim products to treat run-off water so that it is safe and clean for local communities. In fact, as part of Gap brand's new denim launch this fall, we've imprinted information about this program on the inside pockets of each pair of jeans to drive customer awareness.

Another achievement during this time was the creation of the Gap Inc. P.A.C.E. program – Personal Advancement, Career Enhancement – providing life and workplace skills to female garment workers in the developing world.

Of course, achieving change of any magnitude requires other retailers and the industry to take these issues seriously as well, and we value the role social advocacy groups play in furthering this debate. We remain committed to driving greater accountability and transparency across all industries by supporting the 10 universal principles of the United Nations Global Compact.

I hope this report gives you a sense of how working in a responsible way is how we were founded, how we operate today and how we'll do business in the future.

Thank you for taking the time to learn more about the issues we care deeply about.

Sincerely,

Glenn Murphy

EMBRACING OUR RESPONSIBILITY | Who we are

We established our company in 1969 with a brand called Gap and a promise to make it easy to buy a great pair of jeans. Since then, our family of brands has grown to include Banana Republic, Old Navy, Piperlime, and our newest addition, Athleta.

Today, we're one of the world's largest specialty retailers — with more than 3,000 stores and 130,000 employees. As we've expanded, so have our goals for the impact we want to make as a socially responsible company.

In fact, social responsibility is more important and integral than ever to our company's success. It's a lens we use across the company to improve our operational efficiency, productivity, employee engagement, and ultimately, our profitability. In addition, we encourage each brand in our corporate family to go above and beyond these fundamentals in ways that best serve their customers and communities. Our brands are creative forces with unique opportunities to implement their own ideas, from exploring ways to make their clothes more sustainable to fostering a culture that supports responsible business practices.

EMBRACING OUR RESPONSIBILITY | Our focus

At Gap Inc., we focus our social responsibility work on four areas where we believe we can make the greatest positive social and environmental impact.

Supply Chain

The journey our products travel from fields and factories to our stores is really about the people along the way. Learn about them — and about our comprehensive program to ensure they're treated with dignity and respect.

Environment

Around the world, we're reducing waste, saving energy, and incorporating sustainable design into everything from our products to our stores.

Employees

We want the people of Gap Inc. to thrive, personally and professionally. Discover a work environment that supports their goals and passions.

Community Investment

Our greatest impact comes from our greatest strength — more than 130,000 employees. See how we support volunteering and work with underserved youth and women around the world.

Gap Inc. Historical Timeline



As we work toward ambitious social and environmental goals, we realize that we can't achieve them alone.

The scale and urgency of the challenges we collectively face as a global society demand collaboration. We rely on a wide range of organizations and people to share their input and ideas — from government officials to factory owners and managers, from human rights and environmental groups to trade union leaders and investors.

Stakeholders are an integral part of our social responsibility program. They lend their expertise in areas where we lack a similar depth of experience. They also serve as our eyes and ears in communities where we may not have direct visibility into sensitive issues. Time and again, we have seen how listening to a diversity of voices has brought us closer to our goals — for our company and for the workers who produce our product.

“The success of our Social Responsibility efforts depends on how well ‘we’ are collaborating. The ‘we’ is quite simply all of us — governments, companies, non-governmental organizations, trade unions, customers, employees and shareholders. We all have a responsibility to the planet we live on and the people who live here. When we truly work together, we can accomplish great things.”

– Dan Henkle, senior vice president, Global Responsibility, Gap Inc.

Over the years, these deepening partnerships with our stakeholders have increased our collective ability to identify and address social and environmental issues. Working together, we're often able to achieve tangible results on key issues more quickly.

For example, we're collaborating with organizations and other groups to address the issue of using child labor to harvest cotton in Uzbekistan. These groups include: the International Labor Rights Forum (ILRF); As You Sow; Center for Reflection, Education and Action (CREA); the Interfaith Center on Corporate Responsibility (ICCR); the Environmental Justice Foundation; other brands; and investor organizations. Our aligned approach has allowed us to share best practices and gain the internal support to pilot a technology that has the potential to give us greater visibility into our supply chain.

We've made progress over the years, but we know that there is more to do. We also know that we have detractors who believe we're not doing enough to address the issues we face. We welcome constructive critical input and dialogue. Part of what has enabled us to make progress over time is the feedback we receive from our stakeholders, employees, customers and communities. We invite you to let us know how we're doing by sending us an email at Social_Responsibility@gap.com.

We have been fortunate to collaborate with partners to make progress and identify opportunities for change. No one speaks better to the value of this collaboration than the partners themselves:

EMBRACING OUR RESPONSIBILITY | Stakeholders

“At ILRF, we recognize that we cannot achieve our goals to improve labor rights in global export industries without strong relationships with leaders in the export industries we seek to affect. These relationships also teach us to be better advocates as, over time, we and our company allies learn together what works and is most effective.

We have come a long way with Gap since the anti-sweatshop campaigns of the 1990’s. By establishing a relationship of mutual respect and honesty, we believe we have gained a better understanding of the business realities of the apparel sector and how they affect our issues, and in turn, we believe our allies at Gap have a much richer understanding of the nature and root causes of labor rights violations, and how to address them.

This shared understanding and analysis did not exist a decade ago. In and of itself, it does not mean an end to labor rights abuse. It does, however, give us great hope that real progress can be achieved.”

Bama Athreya, executive director, International Labor Rights Fund

“Over the past few years, Workers United has been collaborating with Gap Inc. on different approaches to help keep garment production in the United States and Canada. By doing so together, we’re helping to keep better-paying manufacturing jobs in North America during a particularly volatile economic environment. We strongly believe that these efforts positively impact workers in the communities in which Gap Inc. has retail operations.”

Alex Dagg, treasurer, Workers United

“Gap has stepped forward in a leadership role to collaborate with the NRDC and assess opportunities in factories in its global supply chain to reduce energy, water, and waste and save money and production re-runs at the same time. It has also offered valuable insights into opportunities at the design table to reduce the environmental footprint of apparel manufacturing.

NRDC knows a lot about environmental policy but little about retail. Our working relationship with Gap helps us to better understand the opportunities and practical barriers to enhancing global environmental protection outside of a government policy context.”

Linda Greer, senior scientist and director of the Natural Resources Defense Council’s public health program

“These uncertain economic times, heightened by the urgent need to address the climate and energy crisis, require companies to incorporate environmental and social risks and opportunities into their business strategies. Building on the company’s existing social sustainability commitments, Gap needs to use the results from its environmental footprint assessment to put forth bold targets and long-term goals for leading the sustainability agenda in the apparel industry.”

Andrea Moffat, senior director of Corporate Programs, Ceres

EMBRACING OUR RESPONSIBILITY | Stakeholders

“Gap is demonstrating that social investments and business investments are not mutually exclusive. Our partnership with Gap Inc. has provided us with a fabulous space to fulfill our strategic goal — to move beyond health and education programs for women in developing countries to focus on the workplace. Working with Gap Inc. on its P.A.C.E. program is helping us to continue to advance our thinking about what it takes to change the lives of women in developing countries. It also allows us to understand the very unique role that the private sector can play in shaping a viable model for women’s advancement.”

Priya Nanda, group director, SED, Asia Regional Office, International Center for Research on Women

“Since its inception in 1998, the Ethical Trading Initiative (ETI) has galvanized a broad spectrum of corporations, NGOs and trade unions to bring about widespread change for workers around the world. We value Gap Inc.’s strong commitment to ETI and encourage the company to continue its leadership role on key issues such as integrating ethics into core business practices and encouraging stronger relationships between suppliers and worker organizations.”

Dan Rees, director, Ethical Trading Initiative

“For more than a decade, Social Accountability International (SAI) has endeavored to improve human rights in the workplace throughout the world. Our efforts, which include collaboration with trade unions, NGOs and companies, have touched the lives of millions of workers. We’re pleased to have Gap Inc. as a signatory member of our Corporate Involvement Program (CIP), which is the highest level of commitment a company can make.”

Alice Tepper Marlin, president & chief executive officer, Social Accountability International

“The Maquila Solidarity Network (MSN) has been engaging with Gap Inc. about worker rights issues since the late 1990s. Key moments in Gap’s evolution that MSN has witnessed include pioneering work with independent monitoring groups in Central America, facilitating respect for freedom of association at two major garment factories in Lesotho, releasing a frank and transparent CSR report that raised the bar for other companies, collaborating with other brands to promote a free and fair union representation election at a blue jean factory in Mexico, and working with a UK women’s organization to identify problems with its purchasing practices that have a negative impact on workers.

MSN is hopeful that Gap will build on this good record by tackling some of the difficult issues that remain, such as the poverty wages workers are paid and the employment insecurity they face as a result of trade liberalization and the current global economic crisis. Gap Inc. also needs to become more transparent on the locations of its supplier factories and the steps it is taking to improve its purchasing practices and to ensure that its sourcing decisions don’t victimize workers and good suppliers.”

Lynda Yanz, coordinator, Maquila Solidarity Network

EMBRACING OUR RESPONSIBILITY | Governance

We believe that strong corporate governance goes hand in hand with good management. In turn, a better managed company delivers better business results, and ultimately, greater shareholder value.

For us, good governance begins with a strong and dedicated board of directors, which helps ensure a diversity of thought in the boardroom and an independent perspective on the business and oversight of company management. As of June 2009, our board had ten directors, seven of whom were independent, including one lead independent director. At each board meeting, time is set aside for independent directors to meet in executive session. In addition, only independent directors sit on board committees.

The board's Governance and Nominating Committee oversees the company's corporate governance practices.

We invite anyone to communicate governance concerns directly to the board by emailing board@gap.com. All emails are reviewed by our board chair, the board's lead independent director and our corporate secretary's office.

Read more about our governance practices at http://www.gapinc.com/public/Investors/inv_govern.shtml.

Our company has an organizational structure that enables us to turn our vision of social responsibility into action.

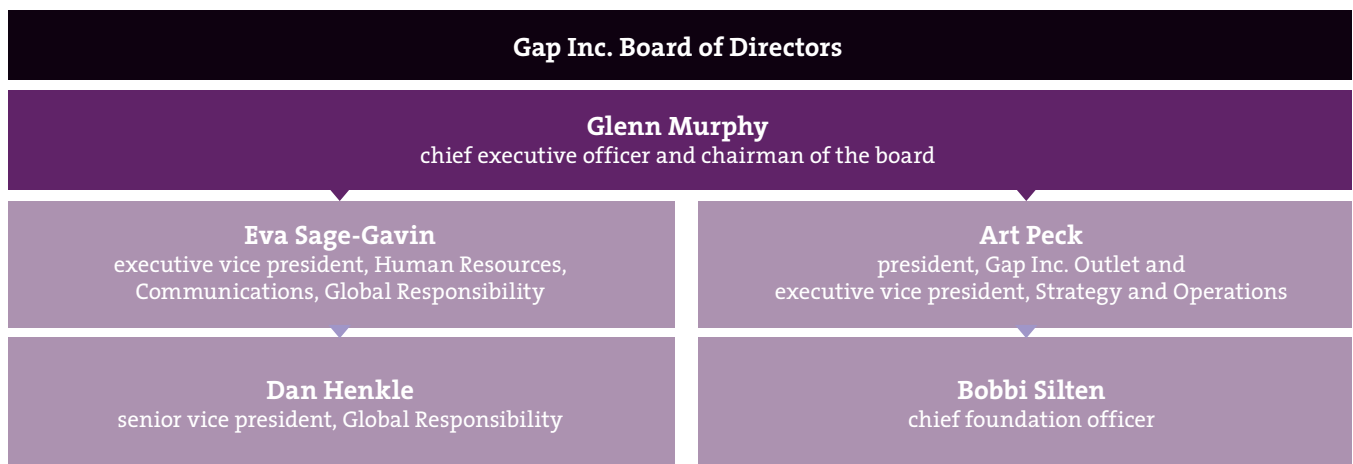
Dan Henkle, senior vice president of Global Responsibility, is responsible for leading Gap Inc.'s social responsibility strategy. He oversees Monitoring and Vendor Development (to monitor and improve factory conditions in our supply chain), Environmental Affairs, Global Partnerships, Social & Community Investment and Strategic Planning & Communications.

In May 2009, the board of directors approved a change in focus of the Governance and Nominating Committee. Going forward, the full board will oversee the company's social responsibility program (vs. the Governance and Nominating Committee), receiving updates directly from Dan Henkle.

In 2008, Dan's responsibilities expanded to include several functions in Human Resources: Global Employee Relations, Learning and Development and Diversity & Inclusion. Overseeing these areas will enable Dan to further instill social responsibility practices into the operations of our company. For example, he is currently working to bring social responsibility training into Gap Inc.'s Retail Academy, a program that provides product skills training to Gap Inc. employees. Accordingly, in 2008, Dan began reporting to Eva Sage-Gavin, executive vice president of Human Resources, Corporate Communications and Global Responsibility.

Also in 2008, Bobbi Silten, Gap Inc.'s chief foundation officer, began reporting to Art Peck. In addition to his role as the president of Outlet, Art is the executive vice president of Strategy and Operations for Gap Inc. Art's expertise in developing business strategies for the company enables him to effectively guide the foundation's strategic direction. Dan and Bobbi continue to collaborate on social responsibility and community investment activities.

Social Responsibility Governance Structure



Around the world, Gap Inc. has dedicated employees working full-time to advance our social and environmental practices.

What’s more, every Gap Inc. employee has the opportunity to make a difference. We ask every employee to make choices that support social and environmental progress along with our business goals.

We encourage our business leaders and employees companywide to be active in key social responsibility initiatives. For instance, our Environmental Council includes business leaders from across the company who are working to improve our environmental practices. We also meet with Gap Inc. brand and sourcing business partners on a regular basis to review factory performance.

Over time, we’ve realized that many of the problems we’re trying to solve are too large and complex to be solved by any one company. In many cases, we’ve found that stakeholder partnerships get better results. By working together, factory owners, non-governmental organizations, companies, trade unions, international organizations and governments can pool their knowledge, skills, influence and resources to achieve an impact far beyond anything one organization could achieve alone.

2008 Full-Time Global Responsibility and Community Investment Employees

Global Responsibility	Number of Full-Time Employees
Global Compliance	58
Strategic Planning & Communications	4
Environmental Affairs	2
Strategic Partnerships	2
Social and Community Investment	2
Global Partnerships	2
Human Resources	
Employee Relations	15
Learning and Development	12
Diversity and Inclusion	4
Talent Management	4
Gap Foundation	12
Total	117

The Gap Inc. Code of Business Conduct is our foundation for promoting a responsible and ethical work environment.

The code is designed to prevent conflicts of interest by employees, ensure our compliance with laws and protect the company's information and assets. It also tells employees whom to contact with any questions or concerns.

We provide internal training programs to help ensure that employees understand our Code of Business Conduct. Each year, our corporate compliance team conducts unannounced interviews with employees and vendors to assess whether business units understand our code and know how to report code violations.

We encourage employees to report all violations or suspected violations to their supervisor or a Human Resources representative. Employees may also directly email our Corporate Compliance department or call the confidential hotline. Our anti-retaliation policy protects individuals who report suspected violations.

Learn more about our Code of Business Conduct at
http://www.gapinc.com/public/Investors/inv_compliance_cbc.shtml.

As part of our commitment to social responsibility, we engage in political and public policy matters that are important to our business and consistent with our principles and values. This allows us to grow our business in keeping with our legal obligations and our codes of Business Conduct and Vendor Conduct. For example, our Government Affairs and Public Policy team advocates on issues such as trade, healthcare and climate change.

In addition to our political participation and advocacy, Gap Inc. maintains a Political Action Committee (PAC). The Gap Inc. PAC (GPAC) supports candidates whose positions are aligned with the company's values and business goals. In the 2007-08 U.S. election cycle, the GPAC contributed approximately \$4,600 to federal candidates from both the Republican and Democratic parties.

We also made \$51,650 in corporate contributions in 2008. All corporate political contributions are made at the state and local level in compliance with our corporate governance practices and all applicable laws.

We recognize the importance of being transparent in our political activities and public policy positions, and will therefore update this information annually.

Gap Inc.'s Code of Vendor Conduct (COVC) establishes the legal, social and environmental requirements that all manufacturers and factories must meet in order to do business with our company.

Our code is designed to ensure that garment workers are paid fairly, work a reasonable number of hours, and do their work in a safe, healthy environment. It is based on conventions established by the International Labor Organization (ILO) and aligned with the policies of Social Accountability International (SAI) and the Ethical Trading Initiative (ETI). It spells out our expectations for compliance with four main principles: laws, environment, labor, and working conditions.

We do our best to monitor factory compliance with our code together with applicable laws. Our code states that factories must abide by all applicable laws and regulations.

We developed our first sourcing guidelines for suppliers in 1992 and established our first COVC in 1996. Since then, our code has enabled us to better evaluate working conditions in the factories that produce our clothes, make meaningful improvements and share the results with our diverse world of stakeholders.

We last updated our COVC in June 2008.

Safety

Safety is a top priority for Gap Inc. We strive to design and sell clothing that does not pose any safety threat to our customers. Our corporate Product Safety team and our global Product Integrity teams ensure that our branded products are made to strict safety standards. We also test our products for a variety of potential safety issues, including: flammability; physical/mechanical hazards (ensuring garment construction or trims can withstand certain levels of force and do not become hazards); durability; and toxicity.

We take customer safety very seriously, and these testing procedures will remain a critical part of our business.

Regulatory/chemicals

From fabric dyeing to creating unique garment finishes, chemicals are used throughout the entire production cycle of most garments. Knowing that certain chemicals can prove harmful to consumers, we have developed a Restricted Substance List (RSL) that dictates which chemicals must not be used when producing our clothing. We have based this list both on existing and developing legislation as well as toxicity risk assessments.

At the end of 2008, we initiated an RSL monitoring program that selectively samples products for chemical testing. Based on test results, products will not be offered in any market if they pose a chemical safety risk to consumers — or in markets where the chemical is legally restricted regardless of actual safety risk.

Goals and Progress

Supply Chain Full Section

How does a great design become a great pair of jeans? What impact does it have along the way?

The term “supply chain” refers to the path that our products travel from the farm where raw materials are grown to the stores where our clothes are sold. To us, this path is really about the people who make our clothes around the world.

Gap Inc. Supply Chain



Many workers, factories and processes are involved in producing our T-shirts, jeans and other products in communities around the world. Some of our biggest challenges — and steps forward — have centered on improving this part of our business.

As with most other companies that sell apparel, we don’t own the garment factories that make our clothes. But we do share responsibility for the conditions under which our clothes are made. Our commitment to safe and fair working conditions extends beyond our employees and stores to include the partners in our supply chain.

We know from firsthand experience that our efforts to improve the lives of people who work on behalf of our company help us run a more successful business. People who work a reasonable number of hours in a safe and healthy environment not only have a better quality of life, but they also tend to be more productive and deliver higher-quality product than those who work in poor conditions.

In an increasingly interconnected world, acting responsibly is not just a good feeling — it’s good business.

GOALS AND PROGRESS | Supply chain | **Our evolution**

Much has changed since we began our efforts to improve factory working conditions over 15 years ago.

We started with a focus on cut-and-sew factories and have since expanded our work to begin to address conditions across our broader supply chain.

Our Vendor Compliance Officers (VCOs) began by monitoring factory working conditions. Now they partner with factory management to help develop the management skills and human resource systems needed to address the root causes of problems.

We’ve progressed from doing this work alone to increasing our impact by engaging a broad range of partners such as labor rights groups, trade unions, factory owners and management, governments, non-governmental organizations and other companies.

Evolution of Gap Inc.’s efforts to improve working conditions

	1990s	2000s	2010 and beyond
Our strategy	<ul style="list-style-type: none"> • Develop standards (Code of Vendor Conduct) for factories producing Gap Inc. clothes • Monitor factories to determine compliance with our standards • Understand the root causes of poor working conditions in factories 	<ul style="list-style-type: none"> • Use findings to increase monitoring effectiveness • Deepen partnerships with external stakeholders to improve factory working conditions • Investigate how our purchasing practices impact factory working conditions 	<ul style="list-style-type: none"> • Begin to address working conditions throughout the greater supply chain (e.g., mills and farms) • Build factory-level management skills and systems aimed at improving working conditions • Evolve long-term strategy and establish clear milestones to track progress against goals
Gap Inc. team	Build a global team of vendor compliance officers (VCOs) to monitor factories	<ul style="list-style-type: none"> • Increase VCO curriculum-based training on issues such as freedom of association. • Build a specialized team to deepen partnerships with external stakeholders. 	Train our VCOs to assess and help enhance factory management skills and systems
Data and reporting	Develop a system to track factory-level performance against our standards	Report externally on the success and challenges of our program	Use trend data to improve and report on working conditions
Milestones	1992 – Developed first vendor guidelines 1996 – Developed first Code of Vendor Conduct	2004 – Published first Social Responsibility report 2007 – Launched a new database to track and report on more detailed factory-level data 2008 – Updated Gap Inc.’s Code of Vendor Conduct	2010 – Evolve long-term strategy and set short- and long-term goals

Poor factory working conditions are simply unacceptable. Yet the complex reality behind them defies easy solutions.

Over the years, we’ve increased our understanding of the issues we find in garment factories around the world. What we’ve learned informs the many Gap Inc. practices and programs that address poor working conditions and, increasingly, aim to prevent them in the first place.

We don’t always have the control to solve these multi-faceted problems alone. In many cases, solutions call for collaboration. When they do, we partner with stakeholders such as labor rights groups, trade unions, factory owners and management, governments, non-governmental organizations and other companies to make progress.

Factors Contributing to Poor Working Conditions in Garment Factories

Working Conditions				
Brand or Retailer	Garment Manufacturers	Industry Conditions	Country Conditions	International Conditions
<ul style="list-style-type: none"> • Lack of understanding of factory conditions and how purchasing decisions can impact them • Inefficient buying practices • Insufficient emphasis on labor standards in sourcing decisions • Unreasonable expectations regarding cost and speed 	<ul style="list-style-type: none"> • Inefficient processes and operating practices • Poor supervisory and management skills • Acceptance of production orders without full assessment of capacity and capabilities • Lack of modern technology and equipment • Lack of regard for the rights of workers • Insufficient understanding of labor laws and standards 	<ul style="list-style-type: none"> • Fragmented nature of garment industry • Intense competition and focus on reducing costs • Conflicting standards, lack of uniform code of conduct, and lack of industry coordination • Chronic price deflation 	<ul style="list-style-type: none"> • Inadequate or outdated labor laws • Insufficient enforcement by local government • Lack of understanding of rights among workers • Poor economic, financial and civic infrastructure 	<ul style="list-style-type: none"> • Global trading requirements, including complex bi- and multilateral restrictions • Tariffs • Geographic shifts in production following expiration of quotas • Increasing expectations of consumers regarding cost and selection
Significant Influence	Some Influence	Some Influence	Some Influence	Less Influence

Gap Inc. Level of Influence

In 2008, our team of Vendor Compliance Officers (VCOs) monitored factories in more than 50 countries.

Our VCOs play an indispensable role; they’re our eyes and ears around the world. Many grew up in the regions where they work, so they understand the culture, have good relationships with the local factories, and are passionate about improving working conditions in their communities.

From the beginning of a garment factory’s relationship with Gap Inc., our VCOs work with its managers to ensure that the factory is able to meet the standards outlined in our Code of Vendor Conduct. We strive to prevent problems by helping factories develop their own human resource management systems to improve working conditions. Should issues arise, we work with factories to identify and resolve them.

Overview of Gap Inc.’s Factory Engagement Strategy

Approval	We require all factories that produce Gap Inc.-designed or branded apparel to pass our approval process before we work with them
Monitoring	After approving a factory, we monitor it to ensure that it continues to meet the legal, social, and environmental standards outlined in our Code of Vendor Conduct
Rating	We rate the social performance of the factories we work with so that we can make decisions and tailor our involvement based on factory-specific needs
Remediation	When we find problems, we work with our factories to develop a plan to resolve them and follow up to make sure they do, in fact, get resolved. In select instances, we have terminated factory relationships if they have a significant issue or persistent problems and the factory lacks the intent or ability to resolve them
Capacity Building	We are working on improving factory-level human resource management systems to empower factories to proactively improve their work environments

How do we choose the factories we work with around the world?

Our priority is to work with garment factories that are willing and able to meet the standards outlined in our Code of Vendor Conduct (COVC). In order to screen out those that don't make the cut, we've developed a clear and rigorous approval process. Before any factory can manufacture apparel designed or branded by Gap Inc., it must undergo our evaluation. This also applies to factories that are subcontractors of our primary vendors.

Our Vendor Compliance Officers (VCOs) begin this process with their initial visit to a new factory to assess working conditions against our COVC. Based on this first assessment, the factory either earns approval or is placed in a pending status while it addresses outstanding issues. Depending on the situation, this process can take anywhere from a few weeks to more than a year. Some factories never meet our standards and, therefore, aren't able to earn approval.

Helping factories address outstanding issues is sometimes a process of "two steps forward, one step back." Though a factory may achieve a high level of compliance with our standards, working conditions are never static and may slip from time to time. As a result, monitoring factories to improve compliance is an ongoing effort.

In select cases, a garment factory that has resolved all identified major issues may be granted a one-time, conditional approval to produce a special "rush" or "chase" order, even though it may still have a few minor issues to resolve. We take this step in rare circumstances and with great care. Such conditional approval is short-term, and the factory is not allowed to produce additional orders until all remaining issues have been resolved to the satisfaction of the VCO.

We know from experience that what gets monitored gets managed — which is why monitoring is a core component of our strategy to improve factory working conditions.

In monitoring garment factories around the world, our Vendor Compliance Officers (VCOs) are the crucial link between written standards and real change. Once they've done the diligent work of approving a garment factory, they make both announced and unannounced visits on a regular basis to assess factory performance against the standards outlined in our Code of Vendor Conduct (COVC).

When we find problems, we work with factory management to resolve them as quickly as possible. We'll continue working with a factory as long as we believe it's committed to making improvements. If a factory has very serious or repeated violations of our code and lacks the intent or ability to resolve them, we'll terminate the relationship. However, we try to avoid this situation due to the impact it can have on a factory's workers.

The Art of Monitoring: Our VCOs must look beyond visible evidence in a factory and piece together information from a variety of sources, including time cards, production records, pay slips, one-on-one and group interviews with workers, information provided by labor rights groups or trade unions that have close ties to worker communities, and of course, information provided by factory management. The more experienced the VCO, the more information — and violations — he or she may be able to uncover.

In 2008, we began tailoring the frequency of monitoring visits to factories based on their unique needs. For example, a factory that's not performing well may require more visits than a factory that is. This approach allows us to better focus on salient issues and invest time in building a factory's capacity to address the causes of poor working conditions. For example, we are now working to develop human resource management systems and a culture of accountability at factories.

We want long-standing relationships with the factories that make our products, and we take a long-term view of our work with them, provided they meet our expectations around factors such as quality, cost and compliance. This means that, over time, we need to assess each factory's ability to adhere to the requirements outlined in our Code of Vendor Conduct (COVC).

Based on site visits and comprehensive monitoring, each factory receives a rating based on a scale of Level 1 to 5. Level 5, or "excellent," indicates that we've found either no or few minor violations of our code. Level 1 means that we've found many violations, ranging from minor to serious. A Level 1 factory is in danger of losing our business if management does not demonstrate improved compliance with the code.

Rating factories is a challenging process with many nuances. It requires us to make subjective decisions about the weight of various issues. For example, we define "key" violations as having a greater negative impact on a factory's rating than "non-key" violations — and we weigh them accordingly.

We regularly review our list of key issues to ensure that it's consistent with the conditions our Vendor Compliance Officers (VCOs) are seeing in factories. We also consult our stakeholders for their insight and guidance.

Our factory rating system has improved with experience, as has our ability to track and capture data. In 2007, we implemented a new system that enables us to search for and document factory issues in much greater detail. This shift required us to update how we calculate our ratings, as reflected in the factory rating data reported on our website.

What should we do when factory problems are found or reported?

We work closely with factory management to develop a plan for improvement based on the number and severity of issues.

Some solutions may be as simple as posting information in a public place or stacking boxes in a different way. In other cases, the issue may be more complex or recurring, calling for a better understanding of what's causing the problem so that it can be effectively addressed.

Our first approach is to work with management in an attempt to resolve issues. However, we will stop working with a factory if we see significant recurring violations of the standards outlined in our Code of Vendor Conduct and the factory lacks the intent or ability to resolve them.

As we continue in this work, our understanding of the underlying causes of factory problems has evolved. For example, two of our significant findings are:

Factory management may lack the internal infrastructure or skills to be effective due to poor human resource management systems and/or a lack of training. We're focusing on helping factories develop better systems and talent, which are critical to creating sustainable improvements.

Several factors in the supply chain, including our own business practices, contribute to factory working conditions. In order to make progress, factories must take ownership of what happens in their factories and companies must work to balance consumer demand for cheaper, faster products with improving factory working conditions. In addition to improving factory management systems and skills, we're working to ensure that our purchasing practices are aligned with our social responsibility performance goals. This work includes providing our Gap Inc. sourcing and brand partners with the information they need to make decisions that improve factory performance against our Code of Vendor Conduct standards.

What's the most effective way to improve factory working conditions? As our work has evolved, so have our answers.

To date, our Vendor Compliance Officers (VCOs) have been at the heart of our work with factories. They inspect and approve factories before we place orders, and conduct regular announced and unannounced follow-up visits to confirm that the standards outlined in our Code of Vendor Conduct (COVC) are being met.

But over time, we've realized that monitoring alone won't achieve lasting, large-scale improvements in working conditions. Our capacity-building program is focused on working with factories to develop management skills and systems that help prevent problems from arising in the first place — and to increase factory accountability for meeting the standards in our COVC.

We're still developing our strategy, but key elements of our capacity-building program include:

Evolving our monitoring process to include a thorough review of a factory's human resource management systems

Working with factories to embed social accountability into their operations by helping them conduct their own performance assessments and take corrective action

Increasing the use of certification programs (for example, SA8000)

Training factories to engage with stakeholders

Collaborating with other brands in the apparel industry to make better use of resources, avoid duplication of efforts and collectively create and share best practices

Current Supply Chain Goals

Partner with factory management to improve working conditions	Estimated Completion Date
Increase the percentage of our factories that have a level 3 or higher rating to represent 80% of our factory base	2010
Ensure that 10% (approximately 130) of the garment factories that we work with have verified human resources management systems in place	2010
Coordinate training for 75% of our key vendors on topics related to improving working conditions	2010
Increase visibility into our supply chain	
Pilot a supply chain traceability system	2009

Completed Supply Chain Goals

Partner with factory management to improve working conditions	Completed Date
Update our Code of Vendor Conduct	2008
Facilitate increased dialogue between suppliers and trade unions in select countries	2008
Implement a new database to collect and report on human rights data in our supply chain	2007

Note:

More detailed tracking: In our 2005/2006 Social Responsibility Report, we set goals to increase our level 4 and 5 factories by 10 percent and reduce our level 1 factories by 10 percent by 2009. However, in 2007, we implemented a new data management system that required us to change the way we calculate factory ratings. This significant improvement in data gathering enables us to track a greater level of violation detail by factory. In 2007 and 2008, we adopted a new formula for weighing violations that draws on this greater level of violation detail. As a result, we have amended our original goal by extending it to 2010 and focusing on level 3 and higher factories. Our new rating calculation is still based on the number and type of violations documented during inspections. We view level 3 factories and above as strong performers and want to reward them accordingly.

Code of Vendor Conduct (COVC) update

Location: Worldwide

Summary: Our Code of Vendor Conduct (COVC) documents the legal, social, and environmental standards that we set for garment factories around the world. In 2008, we made substantive updates to reflect emerging needs and priorities.

Gap Inc.'s Code of Vendor Conduct (COVC) establishes the legal, social and environmental requirements that all garment factories must meet in order to do business with our company.

These requirements are designed to ensure that garment workers are paid fairly, work a reasonable number of hours, and do their work in a safe, healthy environment. We also believe that the code is an important foundation for the ongoing improvement of labor standards.

We continuously evaluate our factories' compliance with our code, which is based on conventions established by the International Labor Organization (ILO) and aligned with the policies of Social Accountability International (SAI) and the Ethical Trading Initiative (ETI). We measure compliance in conjunction with two additional sets of standards: local and country laws. Our code clearly states that factories must abide by all applicable labor laws and regulations.

Our 2008 update to the code reflects our commitment to support workers' rights and align with other industry codes. We also took this opportunity to address changes in our industry and the global marketplace, and to incorporate new input from our stakeholders.

The 2008 COVC updates include:

An explicit reference to the Universal Declaration of Human Rights and the ILO's Core Conventions. Our COVC and programs have always been based on these international agreements. We believe that it's important to promote them, and we're encouraged to do so by the human rights and labor communities. The Universal Declaration of Human Rights calls on all "organs of society" to promote and protect human rights — a priority that we seek to bring to life through our work.

Structuring our code for greater clarity, detail and attention to key global issues related to freedom of association, working conditions, wages and hours. For example, standards for sexual harassment and physical punishment were previously listed under "Working Conditions." In the updated code, they now fall under "Humane Treatment." Likewise, the standards for "Wages & Hours" are now laid out separately as "Working Hours" and "Wages and Benefits." This new category specifically addresses the common, and unacceptable, practice of terminating worker contracts to avoid providing benefits.

Expanding the discrimination standard to include areas such as indigenous status, social origin, disability, sexual orientation, union membership and political affiliation.

A reference to the "Right to Collective Bargaining" in addition to "Parallel Means" in the code's Freedom of Association sub-principle. This establishes that factories cannot interfere with workers who want to lawfully and peacefully associate, organize or bargain collectively, and that, if those activities are restricted by law, workers can develop parallel means to do so.

An update on Temporary Contracts that explicitly forbids the use of such contracts for the purpose of avoiding the provision of benefits.

Addressing child labor

Location: Worldwide

Summary: Child labor evokes a simple, swift reaction: it's wrong and unacceptable. Here, an expert provides context, and examines Gap's response to a child labor issue in its supply chain in 2007.

We asked Dorianne Beyer, Esq. to write about the complexities of child labor and, more importantly, her ideas for minimizing it. She is well qualified to do so. An international labor standards expert, she has consulted to governments and corporations on a wide range of labor policies, with a particular focus on child labor. Beyer is a founding member of the Advisory Board of Social Accountability International. Her article is below.

We all love a story with a promising beginning, a challenging middle and a gratifying end. Unhappily, the long history of child labor cannot fulfill that universal desire: Its rocky path has traced both a society's view of the role of its children, and that society's economic stage of development.

I. The World of Child Labor

In the earliest recorded cultures, children learned skills that would integrate them into the culture of their elders and enable them to survive. Hunting, fishing, shelter-building — these skills belonged to all in the tribe, family or village. "Child labor" does not describe or apply to these family roles.

Even in the 21st century, most family, village or tribe-based sustenance work is still not defined as "child labor." It is not banned by the primary source of international labor standards, the U.N.'s International Labor Organisation (ILO) — as long as work neither interferes with children's schooling nor involves hazardous equipment, materials, or worksites.

ILO Conventions do outlaw youngsters under the age of 15 from work that is dangerous or interferes with education. But this enlightened prohibition has not changed economic pressures in areas, usually in the developing world, where children as young as five help prevent family starvation or homelessness by working for what few cents they may contribute.

Child laborers can be found in trinket-assembly workshops hidden off the main roads of impoverished towns in China's interior, or in Pakistani factories producing metal medical tools, or breaking rocks into gravel in Guatemala. Working conditions are harsh; health and education are stunted.

When I first entered the arena of laws, facts and policies of worldwide child labor 30 years ago, very few people outside the academic and international-aid worlds thought about child labor. It was not on the agenda when trade agreements were hammered out; most "donor" nation governments had no department or division dedicated to child labor. You could hold a meeting of all donor states' non-governmental organizations (NGOs) devoted to child labor remediation in a movie theater — and we did.

Over my decades of listening, observing, conferring and reading, "expert" views on child labor have evolved, but the single most dominant approach has always been prioritizing universal education.

That cannot be dismissed: Historically, education has advanced any population in any state on any continent. However, my view today has expanded: I now know that we need a full quiver of remedial arrows to advance the lives of

Times have profoundly changed. Globalized sourcing and trade, increased governmental involvement and the rise of the informed and concerned consumer have permanently altered the child labor playing field. Gap's corporate awareness has evolved as well — as a result of those changes, and as a stimulus to further change.

Gap started its internal social responsibility department in 1996, a time of epic shifts in child labor concerns. Its proactive policies, on-site inspection of each prospective supplier, and ranking of suppliers by their social accountability compliance (along with Gap's product and quality criteria), were true innovations, emulated by no other branded apparel company.

The timing of Gap's commitment to progressive accountability systems and practices in the mid '90s was no accident. Global outrage at exploitative child labor had reached critical mass. International media, and Western consumers, stock analysts, parents and children were appalled at the commercial exploitation of children, particularly in the export industries of the poorest states.

By 2008, there were about 250 million child laborers worldwide, aged five to 17 (although the oldest youths are generally barred only from hazardous or dangerous labor activities). Almost 50 percent of all child laborers — one in six of the world's children — work in hazardous circumstances, including working directly with dangerous machinery, tools, materials, or processes.

In the vast majority of nations, education is the alternative to gluing shoes together on the outskirts of Wuhan or carrying pails of water up and down the steps of Rio's favelas. And yet... about 20 percent of the world's children, laboring or not, still receive no education.

II. 2007 — The System is Tested

Such is the environment within which Gap's Corporate Social Responsibility (CSR) team operates. And what an operation Gap presided over in 2007-8! Garments and goods were manufactured at about 1,500 production sites in more than 50 countries, all under the monitoring, support, and control of Gap's highly developed CSR department — more than 80 dedicated and continuously trained professionals.

In 2007 this system was about to be uniquely tested. Gap had to absorb and respond to a severe and publicized child labor problem. In the end, however, this scandal was a vital learning experience.

This account briefly dissects what happened, and selected elements of what the company did about it. It illuminates the larger context Gap operates in as well as the influence it shares with newly energized stakeholders and colleagues who play a part in most similar situations today.

There is little disagreement about the facts: In October 2007 a reporter from the (London) Observer advised Gap's CSR personnel of a story about to be printed regarding the discovery of child embroiderers working on shirts for the GapKids label. The BBC, Good Morning America, international newspapers and national ones, picked up that report, all wanting comment. The publicity snowballed.

Gap quick-tracked an investigation. An approved supplier had referred handiwork to a small embroidery company. That company was supposed to get the work done in an approved community center outside of Delhi. Instead, the company subcontracted out a portion of its production to an unauthorized shanty in Delhi that one Gap executive accurately called a "hellhole."

That sweatbox — scant ventilation, no bathrooms, highly flammable fabric strewn all over — was the scene of a labor nightmare. Children, reportedly as young as 10, were applying the embroidery that would make the garments so appealing to 10-year-old consumers in the shopping malls of the developed West.

The use of this factory was miles outside of the clear and firm terms of Gap’s Code of Vendor Conduct and its Vendor Compliance Agreement. These require not only supplier compliance with Gap’s CSR requirements, but also that suppliers implement the Code and Agreement throughout their own supply chains.

In fact, Gap’s qualifying process for vendors is almost a textbook example of “the right thing to do.” It involves an initial and continuing series of orientations, trainings and on-site visits by CSR field associates. The Vendor’s CSR responsibilities are always included in its contracts, along with clear consequences for any breach.

Gap’s reputation for authentic and progressive supplier and supply chain management was deep and broad — and served the company well during this squalid episode. A less admired company might have seen the story accelerate with, for example, investigative tangents exploring its overall labor practices. Media charges could have become ominously inflated over time, damaging Gap’s customer confidence. But Gap’s CSR department was so respected, and its responses to the crisis so prompt and clear, that media coverage began and ended in a week, with this single incident.

Gap took full responsibility — and immediate action in support of its Vendor Code, Agreement and policies. It canceled the product order and barred the embroidery subcontractor from any future GAP involvement. The finished garments would, of course, never be sold. A summit meeting of all Indian suppliers reinforced Gap’s zero-tolerance policy on child labor, and the consequences of non-compliance.

After internal debate, Gap decided not to strike the supplier — a model of labor compliance for many years — from its approved list. Causing the collapse of the supplier would throw many well-trained and dedicated workers out of work, further impoverishing the area. This recognized that general economic development must be added into the mix of concerns to be balanced in such situations. Had the supplier’s CSR record not been so exemplary, it is likely that the result would have been opposite. The supplier was, however, disciplined by a 50 percent cut in their order for at least six months; other requirements included enhanced sub-supplier oversight procedures.

III. Gap and its Broad Societal Partners

Gap relied on the expertise of external stakeholders to return the affected children to a healthier childhood and to turn this disaster into a landmark of progress.

The newly activist Indian government led the external process, fulfilling both enforcement and programmatic roles. Working with a local child labor NGO — Bachpan Bachao Andolan (BBA) — the government managed initial remedial efforts: The children were removed from the sweatshop, given medical care, reunited with their families where applicable, and given some financial support through supplier fines.

Gap’s longer-term initiatives illustrate some progressive trends in the field. These included grants to BBA to serve as public educators in the “embroidery belt” area of Eastern India, educating parents about the grim lives of trafficked children. A mobile van (the “Freedom Bus”) travels to area villages, and former child laborers spread their message about the degradation of a working childhood. With an eye to greater sustainability, Gap has also given funding to the Self Employed Women’s Association (SEWA) to establish local centers employing only adults in the handwork trades. The success of these efforts may create a viable, replicable model of how to achieve sustainable economic development, and therefore child labor reduction, in other industries and places.

Another element in Gap's longer-term plans is membership in an alliance to create a global forum of similar brands and retailers, along with government officials, factory owners, trade unions and NGOs, to create holistic solutions to child labor. This effort to organize industry-wide strategies against child labor may begin to erode such barriers as intra-sector competition and confidentiality.

IV. The 21st Century Approach to Child Labor

A number of Gap's 2008 actions are aimed at broad economic development, recognizing that child labor arises from the lack of a viable economic foundation. Seen through that lens, it becomes clear that effective remediation must address the benefit of all community members — children/students and adults/parents/workers.

This is the 21st Century paradigm: Parents who can feed and house their families are the strongest barrier against child trafficking and child labor.

The objective then becomes transforming known areas of child labor from chronic poverty zones to "economic empowerment zones" that facilitate sustainable employment for adults.

The challenge is significant: Corporations that lead the initial phase will only see rewards in the longer term. Initial steps might include funding a zone's pre-production planning, building and training. Or schools: Educating children has consistently yielded (to the entire community's economy) six or seven times the amount of any initial investment.

Companies can work with other stakeholders to gather funding for the early stages of economic development. They can mobilize other industry purchasers to agree to multi-year orders for finished goods made by adults earning adult wages — and supporting their children. Now that's a path to the future that would change the world.

To learn more about international child labor:

United Nations: www.unglobalcompact.org

International Labor Organisation (ILO): www.ilo.org/global/Departments

and for its child labour programme (IPEC): www.ilo.org/ipec/

Unicef: www.unicef.org/protection/index.html

U.S. Department of Labor's international child labor program: www.dol.gov/ILAB/

Dorianne Beyer, Esq. (LLM, JD, BA) has consulted widely to governments, corporations and public and private institutions, providing international and voluntary labor standards and employment policies, policy analyses, strategies, programs, and trainings, particularly relating to child labor and in developing states. She is a former Executive Director of Defence for Children International-USA.

She is a Founding Member of the Advisory Board of Social Accountability International and contributed significantly to its widely used SA8000. She is a member of Rainforest Alliance's Sustainable Agriculture Network International Standards Committee, revising its agricultural labor standards.

Uzbek cotton

Location: Uzbekistan

Summary: Factories are often the focus of human rights issues — but we’re also beginning to look deeper into the supply chain. In Uzbekistan, we’re collaborating with human rights groups and other brands to address the use of child labor to harvest cotton.

There is growing momentum to curb the Government of Uzbekistan’s practice of orchestrating the use of children to manually harvest cotton. The use of child labor is absolutely unacceptable to Gap Inc. anywhere in our supply chain. For the immediate term, we have made it clear to our vendors and mills that we expect them to avoid knowingly sourcing textiles from mills that source cotton from Uzbekistan. Over the longer term, we’re committed to addressing this issue and believe that our sourcing practices, together with our participation in collective action with other stakeholders to influence the Uzbek government, will enable us to have a greater positive impact.

The use of child labor to harvest cotton is driven by diverse and deeply-ingrained forces in Uzbekistan, including: the historical legacy of compulsory labor mobilization for the cotton harvest; a “command economy” in the cotton sector, which gives the government control over what farmers plant, what inputs they use, what national production quotas they fill, and where they sell their crops; the repression of journalists and advocates who speak out on this issue; and the ease and profitability of mobilizing underage workers.

Along with other members of the growing coalition working toward change, we believe that the Government of Uzbekistan has the power to resolve the problem if it so chooses. In 2008, the Uzbek government ratified the ILO Minimum Age Convention (C138) and the Worst Forms of Child Labor Convention (C182), and issued a draft national action plan to combat child labor. While these commitments are important steps, the Uzbek government has not yet demonstrated meaningful and credible action toward eradicating the problem.

To encourage the Uzbek government to evolve its practices, we are working with a rapidly growing coalition of other organizations and groups, including: the International Labor Rights Forum (ILRF); As You Sow; Center for Reflection, Education and Action (CREA); the Interfaith Center on Corporate Responsibility (ICCR); Calvert Investments, the Environmental Justice Foundation; other brands; and investor organizations. These partnerships help ensure that we are aligning our approach and making the most of the collective influence and expertise that others can bring to bear.

Our current prohibition of the use of textiles made with cotton from Uzbekistan is an important element of Gap Inc.’s efforts to support this broader strategy for change. We’re working with a supply chain traceability expert, Historic Futures, to explore tools that will help to ensure that this prohibition is respected.

Gap Inc., together with other coalition members, recently met with the Uzbek ambassador to the United States to voice our concerns and explore solutions directly. To continue building momentum, we have been sharing our experience and efforts with others interested in learning more about this issue so they can take action themselves. Feedback has indicated that the coalition’s efforts are making a difference with the Uzbek government. However, there is still much to be done.

Despite our level of commitment, addressing the use of child labor at the farm level is challenging for us and other retailers. Gap Inc.’s primary compliance expertise is in working with our direct suppliers — the factories that make our clothes — to ensure fair treatment of workers. It is more difficult for us to identify a raw material’s point of origin because it occurs at the most remote point of our supply chain. We’re currently working to launch a pilot tracking system that will increase our visibility into the country point of origin for raw materials.

The “why” of compliance

Location: Worldwide

Summary: Compliance is usually described in terms of audits and findings, problems and how they are fixed. But what drives compliance work is improving things for the workers. It’s about the workers.

Ruth Rosenbaum is a key stakeholder in helping us to improve factory conditions. She has devoted much of her career to this work, and is currently executive director of CREA: Center for Reflection, Education and Action, Inc., a research and education organization. Below, she writes about where we are now — and why she sees the potential for Gap Inc. to play an important role in bringing about change.

Bringing about change is an amazing process. It usually starts with the idea that if you just do “this,” the desired changes will happen. Reality sets in when you are actually involved in the work of bringing about that change.

What do we want to change by our compliance work? The problems many workers experience in the supply chains that are part of the global economic system — unjust treatment, hazardous working conditions, etc. Since Gap Inc. is part of the global system, the company also faces the challenge of dealing with these problems in its supply chain.

And why do we want this change? At the heart of all the compliance work is the central purpose, the “Why” of that work: “It’s about the Workers.” It’s because of concern for them and their well-being. All compliance work is founded on that original idea, that original passion to bring about positive change for workers, to find, fix and prevent unjust treatment or hazardous working conditions. The hope is that as all of us become more aware of problems in the supply chains, investors, consumers, and brands act out of the same concern for the workers.

Before exploring these reasons, it is worth asking two quick questions. First, who does the “we” in this essay refer to? It is any and all of us who do this work, are concerned about it, or have ideas for improving it. We invite you to find yourself as you read. Second, what is the time frame? Original independent monitoring began in 1996. Since then, depending on the part of the world and the particular brand or industry, the work in different factories has progressed at different rates.

So why is this work on the company’s part necessary for positive change to occur in the places where our products are made? There are many compelling reasons.

The Role of Governments

Supply chains encompass many different countries. In countries where labor is strongly organized and the labor systems work well, the problems workers experience in supply chains today would be resolved through accessing that system. Yet it remains true in many countries that unions or other worker organizations lack the power and authority to really protect their members, the workers.

Even in those countries where a strong labor movement operates, labor unions or organizations can only work where the governing legal system is designed to recognize and protect workers. Governments in many countries lack the laws and regulations to protect their people in the workplace. In countries where protective laws exist, inadequate systems may make enforcement of these laws difficult if not impossible. In other cases, the governments may lack the will to enforce the laws, or they may be corrupt.

Compliance work continues to be necessary because governments are not doing their job. Something beyond an inadequate or slow-moving legal system is needed when workers are systematically treated unjustly. Who besides the government has the power to bring about change in factories around the world to protect the workers?

We have turned to the brands, the corporations, because they have that power. I have seen this power in action. In 2003, in El Salvador on another project, I was approached by a member of our research team. She had been doing research outside the maquilas (or factories), and told me that some of the women wanted to talk with me personally. They knew me from other work CREA had done in San Salvador. When we went back the next day, the workers told us they had a problem in the factory and had spoken with both management and Labor officials, to no avail. They asked us simply if we would get in touch with Gap about the problem.

I called Gap and spoke with Dan Henkle, SVP of Global Responsibility, as well as Deanna Robinson, VP of Monitoring and Vendor Development. They intervened on behalf of the workers and within 48 hours, the problem was fixed. It was clear who had **the power and the will to change things for the workers.**

But despite the power that brands hold, we must be clear that the real responsibility for protecting workers should belong to the government in each country. Until then, we work through the corporations' compliance systems until we find the system that achieves our ultimate goal: to protect the workers.

Dealing with the Problems

Over more than a decade, different models have developed to address the problems in factories. When we first started, we thought that independent monitoring by local labor, religious and civil society organizations would be sufficient. Independent monitoring did find the problems, but then came the challenge of how to fix them.

In the independent monitoring systems and then in the compliance systems brands have developed, the monitors or social auditors inspected the factories, found the problems and reported them to management. Then the brands use the power that they have to push, encourage, force (there are all sorts of verbs that can be used depending on the specific factory and situation) the factory owners to fix the problems that have been found.

Finding and Fixing

Everyone assumed that the brands sourcing in the factories have the power to bring about the needed changes. But we have quickly and continuously learned that was not enough.

In many instances, factory management would fix the problems when these were reported to them through the monitoring process, but then management was either unable or unwilling to recognize the problems unless the specific situations were pointed out to them. Many of the factory managers came to their positions because of their families or because of the company for which they worked who actually owned the factory. They were appointed to produce the product. Good management skills, often even in that domain of production responsibility, were to be learned on the job. In some cases, the managers came from one country, while the workers came from another. Dealing with cultural differences is an ongoing challenge.

Our mantra of “find the problems” through monitoring was quickly expanded to “find and fix” the problems. Based on the “find and fix” model, more brands joined the work. Codes of compliance were developed and placed in factories, social auditors were employed to do the social audits, and corrective action plans were developed to push the factories to make the needed changes. The brands held the factories responsible for the fixing.

While improvements have been documented, permanent change remains elusive. The systems of “finding and fixing” have not resulted in the prevention of the problems that workers face in many factories around the world.

Finding, Fixing, Preventing: The Goal of Sustained Compliance

To prevent problems, we need to find and fix the causes where we can. For example, a major problem workers face is demand for excessive overtime. By integrating the work of sourcing with the work of compliance, the brand can more realistically set turnaround times for their orders because they understand the effect they have on the need for overtime work. The business case for compliance deepens.

Similarly, having an integrated database that brings together up-to-date information from the audits in the factories, trainings, sourcing of products, etc. provides the means to track the effects and then, working backwards, the causes of issues in the factory.

The challenge of bringing about sustained change remains. Part of the problem is the evolution of the huge industry of CSR which often looks to be able to compare companies rather than focusing on the impact on workers and communities on the ground. When a company is asked: “How many instances of human rights abuses have you found?” The workers and communities enduring these abuses are invisible. Plus, brands that actively work to FIND these abuses and problems often are made to seem worse than brands that do little or nothing and so do not find or report them. Even the work towards sustainability and sustainability reporting still needs to answer the core questions: “Sustainability of whom? Sustainability of what?”.

Workers in a Factory Community-Based Compliance System

As compliance systems developed over time, the involvement of workers as participants in good compliance programs is still a challenge. They have remained just the recipients of the programs’ benefit. The brand, the social auditor and the factory management are usually the participants in the “find and fix” process. Occasionally, in some specific projects — such as the original design for independent monitoring, and in current projects designed to focus on certain workplace problems or specific issues within an industry — civil society organizations are also part of the work. But none of these approaches include the workers as partners in the work of compliance.

While many of the programs and projects do improve things for the workers, none of them involve the workers in any systematic and systemic way to find and fix, and then see what changes are needed to prevent the problems. That is the challenge: find, fix and then prevent.

Moving beyond “find and fix” to “find, fix, prevent” will require involving the workers as participants, not just as passive recipients of the compliance process. Workers are the closest to the work. They are part of the factory community. They have the most to gain. Why waste their possible input?

In a different context, I’ve seen the value this input can bring. Years ago, while I taught at a university, the Dean asked professors how we could improve the registration process. I asked the students in each of my courses for their ideas. After all, I did not register for courses; they did. I submitted their suggestions to the Dean, explaining that they came from the students. His reply? The suggestions were excellent. But how, he wondered, had I come to ask the students?

Coming Back to the Why

Motivation is always complex: Concern for the workers, the business case, the company or factory image, the reality — all are part of the “why” of compliance work. Yet compliance at its truest and most enduring has, as its foundation, real human concern for other human beings.

As we said at the beginning: It’s about the workers.

	Who is Involved				
	Brand	Compliance Auditors	Local Civil Society	Factory Management	Workers
Independent Monitoring	Yes	–	Yes	Yes	–
Compliance Systems	Yes	Yes	–	Yes	–
Management Systems Projects	Yes	Yes	–	Yes	–
Focus on Specific Problems	Yes	–	Yes	–	–
Focus on Specific Issues	Yes	–	Yes	–	–
Factory as Community-Systems Based Compliance	Yes	Yes	Yes	Yes	Yes

Dr. Ruth Rosenbaum is a social economist, with a PhD in social economics and a master’s degree in molecular biology. She was among the resource persons working on the development of the Global Reporting Initiative prior to its launching, and she is a member of the Global Reporting Initiative (GRI) International Stakeholder Council. She served as co-chair of the Apparel & Footwear Sector Working Group for the GRI.

Dr. Rosenbaum is the executive director of CREA: Center for Reflection, Education and Action, Inc., a social-economic research and reporting organization founded in Hartford, Connecticut in 1996. She is the creator of the Purchasing Power Index, which has been used for Sustainable Living Wage research in Haiti, Mexico, El Salvador, Guatemala, Kenya, and Connecticut. In addition, Dr. Rosenbaum has more than a decade of experience working with other international NGOs to develop monitoring programs in manufacturing and assembly plants. She has done work in Africa, Asia, Latin America and the Caribbean.

She is the author of *Sustainability of Whom? Sustainability of What?* (2008), *In Whose Interest? Using the Purchasing Power Index to Analyze Plans, Programs and Policies of Industrialization and Development* (2004), *Making the Invisible Visible: A Study of the Purchasing Power of Maquila Workers in Mexico* (2000); and *Sustain-Ability* (2004).

Responsible transitions

Location: Worldwide

Summary: When a factory relationship begins or ends, how can we help the factory and workers make the transition? We work closely with our factories to verify compliance with labor requirements and regulations.

Ours is a fast-moving industry. Success depends on our ability to anticipate and respond quickly to market changes. As we navigate shifts in our business, we strive to work with our factories to minimize the negative impact on them and their employees.

That impact is getting worse due to the economic downturn, says Lynda Yanz, executive director of Maquila Solidarity Network, a Canadian-based labor and women's rights organization. In addition to factories shutting down, she notes, orders are being scaled back. "Workers are more at risk," she says, "so brands need to deal responsibly with sourcing pressures and engage with their vendors to ensure that workers and communities aren't paying the price for the brunt of the economic crisis."

Some of our most important efforts are preemptive, as we seek to build stable, long-term supplier relationships. In determining country and supplier sources, we consider a number of factors: quality, price, on-time delivery, and commitment to social compliance, rule of law and innovation. Striving for long-term relationships helps build trust and cooperation between suppliers and Gap Inc.

Still, we can't entirely avoid changes in our industry, especially given the current economic climate. When production shifts occur that are likely to result in significant layoffs or closures, we seek to work with factories to minimize the impact and ensure that all legal labor requirements are met. We require that all regulations are followed and implemented by factory management.

This may seem like a given, but the unfortunate reality is that many factories throughout the industry are closing without meeting their obligations to workers. Government ministries often find it challenging, if not impossible, to enforce their own laws. Workers show up to find doors closed and nowhere to turn for their severance pay, back-wages and other benefits. Because the majority of garment workers are women, and many of them are single mothers, Yanz notes that the impact on families can be great.

"There's a lot of instability right now," she says, adding that reduced orders create stress due to cuts in pay and uncertainty. Workers who are logging just one or two days a week can suddenly be pressured to work overtime as a result of a rush order. According to Yanz, factory closings affect the broader community, as jobs in the informal sector serving factory workers — vendors selling lunches, fruit, juice and trinkets — also disappear.

Factory workers, Yanz says, "find themselves with no job, no health coverage or day care, and no assistance for a job search. And informal sector workers who have been dependent on the maquila also lose out. The challenge for all is how can they find enough to survive, to keep food on the table for their families. School and doctors are now luxuries."

These are difficult challenges to face. But at Gap Inc., we believe that we significantly reduce the risk of this outcome by maintaining responsible sourcing practices, getting involved when we're aware of high-risk closures, and reaching out to factories to facilitate resolution.

We're also working with our suppliers and others to address this issue at the industry level. Gap Inc. is one of three core brands that worked with non-governmental organizations and trade unions to develop the Multi-Fiber Arrangement (MFA) Forum Responsible Transitions Guidelines.

These guidelines incorporate recommendations from multiple sources into a single document for the industry. We're actively engaged with the MFA Forum and others to determine how these guidelines can best be applied and what other collective actions can be taken to address the impact of the global recession. "Gap Inc. has taken the guidelines very seriously," says Yanz.

Ultimately, she would like to see companies go even further. She calls for more accountability, saying that brands should go beyond legal requirements to assess the impacts of their sourcing decisions, make those decisions more transparent, consult with workers about possible alternatives, and help with new placements or retraining.

"This issue is fundamental at the moment," she says. "There can be creative solutions to ensure that workers aren't simply left without health benefits or income."

We have explored these ideas in specific cases, and have talked openly with our stakeholders about the challenges of implementing all of them on a widespread scale. It's often the collective decisions of many companies, sourcing agents, or even of a factory's parent company that eventually result in layoffs and closures. We've also learned that reduced orders tell only part of the story about why factories in our industry are closing. A lack of access to credit is driving the closure of factories that otherwise have a healthy business.

The diverse causes of layoffs and closures reinforce our belief that it's more important than ever to find collaborative solutions. We believe that our efforts to improve working conditions more broadly can help by bringing greater stability to the industry. We have supported a number of other projects to help factories create and maintain competitiveness and reduce turnover, including:

- International Labor Organization (ILO) and International Finance Corporation (IFC) Better Factories Cambodia and Better Work Vietnam program
- Continuous Improvement in the Central American Workplace (CIMCAW) training and capacity building in Latin America
- Human Resource Restructuring Program with the IFC's South Asia Enterprise Development Facility in Bangladesh
- Lobbying for trade legislation to help countries in the African Growth Opportunity Act (AGOA) group to import fabric from China
- Ongoing work with non-governmental organizations (NGOs) and trade unions around the world to address local issues

Purchasing Practices

Location: United Kingdom, South Asia and the United States

Summary: How does an order for dresses affect the life of a garment worker in a factory thousands of miles away? Taking a closer look at purchasing practices offers insights into how we can improve working conditions through internal decision-making.

Over the last five years, we have deepened our understanding of how working conditions in the factories that make our clothes are affected by customers' desire for on-trend fashion at a value and by our own purchasing practices. Our purchasing practices include all activities in which we interact with factories — from the clothing samples we order during the product design process to how quickly we expect factories to ship finished clothes.

For help with this research, we began partnering with the Ethical Trading Initiative (ETI) and Women Working Worldwide (WWW) in 2004. ETI is a tripartite alliance of companies, NGOs, and trade union organizations working together to identify and promote ethical trade. WWW is a non-governmental organization based in the United Kingdom that works on issues of worker rights in the garment supply chain. It has published research on how poor, inefficient decision-making by apparel companies can have a negative impact on factory working conditions.

In 2006, we collaborated with ETI and invited WWW researchers to interview key Gap Inc. employees at company headquarters and one of our major sourcing hubs, as well as factory management and workers. Various workers groups and other civil society stakeholders active in the Gap Inc. supply chain also contributed to these efforts. A number of recommendations to improve purchasing practices emerged, including:

Developing better systems to address situations in which factories don't have enough time to complete production orders due to shorter lead times or various raw material delays.

Helping both internal staff and factory management improve production planning to meet demands in a timely and ethical manner.

"In today's challenging global economic environment, it is imperative for companies to consider the impact of their own decision-making on working conditions in their supply chains," says Lakshmi Bhatia, Gap Inc.'s director of Global Partnerships. She has been working closely with WWW since the project's inception and chairs the Purchasing Practices Working Group at the ETI. "This understanding will eventually enable all critical actors in the supply chain to consistently make the right decisions for their products, as well as for the people producing them."

In 2008, we began a pilot program to gather and analyze data, which detailed opportunities for improving our design, production and planning processes. We plan to train our teams on these findings, beginning with Gap brand in 2009. We're currently determining locations, refining our scope and scheduling a launch date for the training.

We also made a significant organizational change in 2008 — moving the management of the Gap Inc. Retail Academy under Dan Henkle, the senior vice president of Global Responsibility. The Retail Academy provides core training curriculum to the company's product teams, including Merchandising and Inventory Management. Dan is currently working with the Retail Academy to embed social responsibility training into its programs, which include purchasing practices.

Freedom of association

Location: Worldwide

Summary: Saying that we support freedom of association is one thing. To make real progress, we've worked to bring together groups and individuals who have little history of talking with each other. Here's a look at what has enabled us to make progress in bridging the divide.

As part of our commitment to social responsibility, we support the United Nation's Universal Declaration of Human Rights principles, including the right of all workers to associate freely and bargain collectively. Because workers around the world face diverse challenges depending on their circumstances and location, we use a wide range of approaches to help protect their rights.

One way we demonstrate support for freedom of association and collective bargaining is by partnering with workers' rights groups, including trade unions. For example, we work with the Global Union Federation for the garment sector and the International Textile, Garment & Leather Workers' Federation (ITGLWF) to bring about positive communication between factory workers, labor organizations and factory management. We believe that collaborative dialogue among factory management, labor groups and workers can be helpful in addressing issues when challenges arise. It also leads to improvements in other aspects of factory conditions. In addition, we work closely with other workers' rights groups to protect freedom of association rights.

While our approach may seem simple, it can be challenging to begin an open dialogue among groups with diverse viewpoints. Sometimes, it's difficult just to get people together in the same room.

Sri Lanka

This was the case in Sri Lanka, where we held a two-day workshop in September 2008 that focused on productive ways to reduce workplace issues among factory management and trade unions. Prior to this workshop, entitled Building Competitiveness in a Globalized Economy, conflicts between factory managers and labor unions hindered progress on improving working conditions and building a healthy business. The resulting productive dialogue and problem solving among such a large number of factory managers and trade union representatives was a first for the industry.

In the Sri Lanka workshop, we implemented a specific agenda that led to successful outcomes. Initially, the ITGLWF representatives and the Gap Inc. social responsibility team members met with local union groups and factory management in independent forums. On the second day of the workshop, a joint session was held in which smaller groups solved problems together and discussed the issues raised in the initial, independent meetings. Based on this groundwork, a balanced and productive dialogue was possible, enabling factory managers and union leaders to develop joint solutions and a better understanding of each other's challenges. This work led to positive, proactive communication that helped to resolve current challenges and provided a platform for future conflicts that might arise. We have successfully used this model in other workshops with the ITGLWF.

Neil Kearney, general secretary of ITGLWF, comments: "Through its active promotion of social dialogue between factory managements and trade unions, Gap Inc. is sending a powerful message to suppliers that industrial cooperation at the workplace level is a key element to competitiveness and the foundation of mature systems of industrial relations necessary for long-term success."

Cambodia

In 2007, we held sessions in Cambodia that brought together manufacturers, representatives from global and local trade unions, the International Labor Organization (ILO), and the U.S. government. During this meeting, the constructive communication and shared problem-solving helped the groups gain ground on improving factory conditions, including the right to associate freely.

Vietnam

In 2008, we held four workshops in Vietnam that included the ILO, the Industrial Relations Advisory Service Centers and the local resource centers established under ILO's Industrial Relations Project. These sessions, held in Hanoi and Ho Chi Minh City, involved 200 representatives from Gap Inc.'s supplier base in the country. We continue to work alongside the ILO with select factories in Vietnam to promote an ongoing dialogue between the trade union workers and factory management.

India

In southern India, we've worked to bring together unions, their affiliates, and factory management to proactively address factory issues and foster better working relationships. Our efforts resulted in an agreement of understanding between one factory and union representative to prevent such issues from affecting their business goals.

Central America

We took a similar approach to working with factory managers and union leaders in Central America, where union organizers had suffered targeted violence. Over the years, the region's lack of progress in both working conditions and freedom of association was affecting its economic health, as companies looked elsewhere to manufacture clothes.

In our work to address these issues, we became a founding partner of the Continuous Improvement in the Central American Workplace project (CIMCAW), an innovative program dedicated to improving working conditions. Similar to the case in Sri Lanka, CIMCAW's idea was both simple and bold: In order to make lasting changes, collaboration was essential. But what sounded easy in principle was much more difficult in practice; distrust ran high between factory managers and trade union leaders.

Through CIMCAW, we worked to launch an open, ongoing discussion between factory managers and labor unions. This work led to breakthroughs that, for many years, had not seemed possible — including joint training sessions for factory managers and workers.

CIMCAW's success was founded on partnerships including global brands and such groups as the United States Agency for International Development (USAID), the ITGLWF, and Social Accountability International. One of CIMCAW's greatest accomplishments was the formation of committees in Nicaragua, Honduras and the Dominican Republic that included representatives from local industry associations, unions and the government. Getting these groups to work together was a major breakthrough that took months, sometimes years, to achieve.

"The goals of social responsibility are ambitious, and the issues humanity faces require bold action," says Darryl Knudsen, Gap Inc.'s senior manager of Strategic Partnerships. "Sometimes the challenges of implementation can limit one's courage to think big. CIMCAW was about thinking huge. When we work with others, we really can do things that we could never do alone."

As our experience with trade unions and other groups demonstrates every day, we cannot work alone to meet our goals to improve factory working conditions and protect worker rights. Collaboration among many groups is the key to addressing these issues, and we continue to support open, productive dialogue to solve problems. Partnering with diverse groups and organizations is critical to upholding our commitment to social responsibility, and it is essential to growing a healthy business.

ILO/IFC better work program

Location: Cambodia, Vietnam

Summary: In Cambodia and Vietnam, we're joining forces with a unique international program and other brands to improve working conditions in garment factories.

Gap Inc. supports the Better Work programs that are a joint effort of the International Labor Organization (ILO) and International Finance Corporation (IFC). This voluntary, industry-based initiative seeks to strengthen relationships between international buyers, local enterprises, governments and worker organizations to improve working conditions and competitiveness.

In Cambodia, the Better Factories program aims to improve working conditions in the country's export garment factories. The program is an effective mix of independent monitoring together with recommended solutions, training and information.

In June 2008, the ILO assumed full responsibility for monitoring all Gap Inc.-approved garment factories in Cambodia. Its third-party monitoring enables us to focus our work with factory management on capacity building — helping factories to better address their problems and develop their own systems to improve working conditions.

We're also working toward a more unified monitoring system for all industry brands under the ILO/IFC Better Work programs. We believe that this industry-wide collaboration will take factory improvements further, reducing duplication and redirecting resources to the critical work of capacity building. What's more, joining forces with other brands makes better use of resources and supports sustainable factory improvements.

In 2008, we conducted three workshops that involved approximately 75 percent of our Cambodia suppliers. Our goal: to help them move from monitoring alone to developing internal systems that address the causes of poor working conditions.

Given Gap Inc.'s size and presence in Cambodia, we believe that our participation in the program is vital to its long-term success. We support the program because it includes all exporting garment factories, represents the common interests of all stakeholders, and is a transparent, verifiable and credible tool for making wise sourcing decisions.

In October 2008, the ILO/IFC Better Work program was launched in Vietnam, with Gap Inc. as one of its key supporters. We're also a member of the Experts Group, which provides feedback and direction on the program's tools and implementation strategy.

Better Work Vietnam is the largest of the country programs developed by the ILO/IFC Better Work global program. In addition to pursuing the fundamental aims of the ILO/IFC Better Work program, the Vietnam program aims to enhance factory performance and market access, create a more cost-effective process for labor and compliance and help the government improve overall labor standards and economic development.

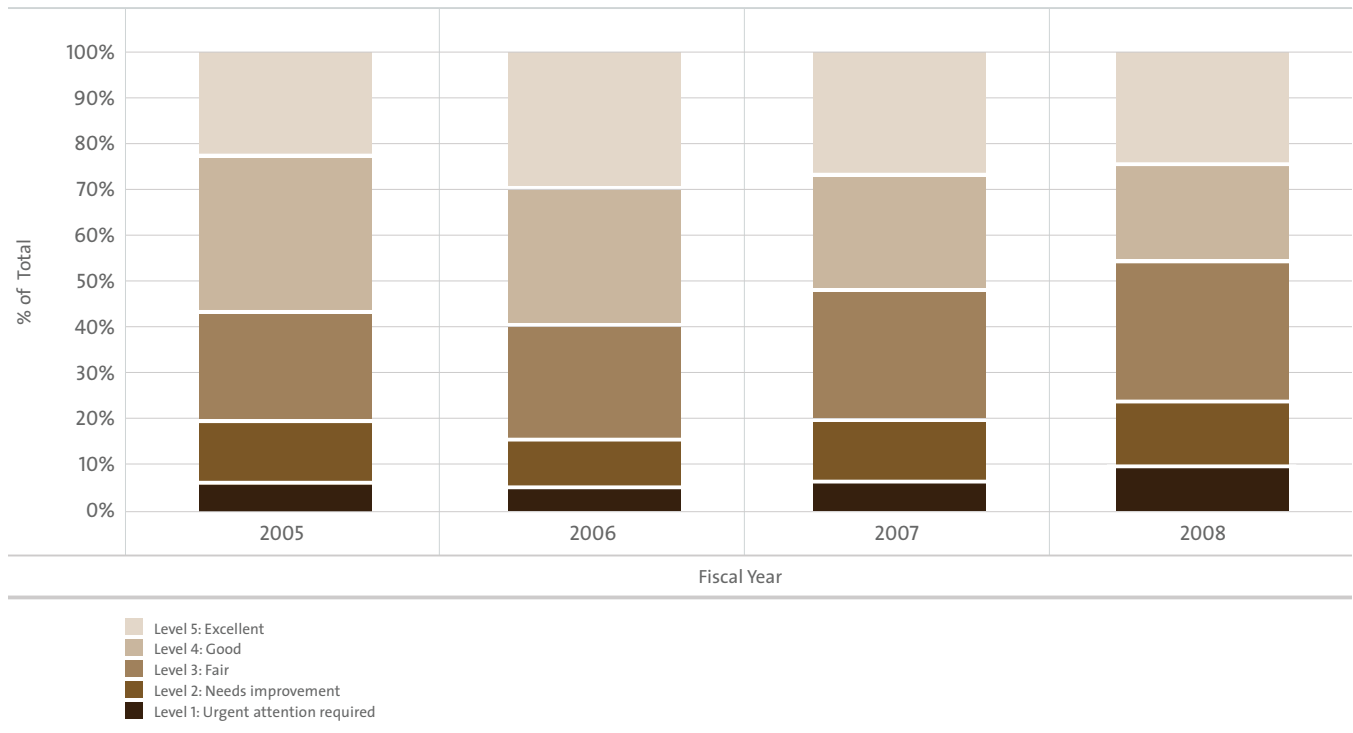
Going forward, we support plans to expand the ILO/IFC Better Work program into more countries, including Haiti, Jordan and Indonesia.

Goals and Progress

Supply Chain Data

Rating factories is one of the most important things we do to ensure that the people who make our clothes are working in safe, fair conditions. On a scale from one to five, these ratings provide a window into how factories are performing and help us focus our efforts to improve working conditions where needed. We look at our ratings data from a variety of angles to understand overall trends, as well as performance, in different regions and individual countries. Additional information about our factory ratings data is available below the chart.

2005 - 2008 Factory Ratings Comparison



Note:

In 2007, we implemented a new data management system, which required us to change the way that we calculate factory ratings. Similar to 2005 and 2006, the new 2007 and 2008 rating calculation is based on the number and type of violations documented during inspections. However, we changed the relative weight of violations in the new rating calculation to account for the greater level of violation detail that our new data system is able to track by factory. The 2005 and 2006 ratings in the above chart are the same as those reported in our 2005/2006 Social Responsibility Report. Data represents fiscal year.

Overall, we work with a higher percentage of Level 5 — or excellent — factories than Level 1 factories, which have potentially serious issues. In 2008, 25 percent of the factories we contracted with were Level 5, compared to 9 percent that were Level 1. Overall, our average factory rating in 2008 was 3.4, compared with 3.5 in 2007. While any rating above 3 is in the “fair” range, we aim to see our average ratings continually improve and are examining reasons for this recent decline.

Other trends also warrant a closer look. The percentage of Level 1 factories increased from 6 percent in 2005 to 9 percent in 2008. And while Level 5 factories increased from 2005 to 2006, the percentage has fallen for the past two years — from 30 percent in 2006 to 25 percent in 2008.

In 2007, we made a change in our rating methodology that has contributed to this trend. In order to make our ratings more comprehensive, we significantly expanded the items that we check for in factories. This increase makes it more likely that we will find violations, which translates to a greater percentage of lower ratings. Accordingly, we would expect to see a drop in top ratings.

While we believe that this shift helps to explain our findings, we're investigating other factors to ensure that we understand this trend and continue to make improvements. We have focused our analysis on two regions, Southeast Asia and South Asia, which represent close to 50 percent of our factory base. Both have shown a drop in their average factory rating. One reason may be the economic climate, which has put pressure on the entire apparel industry — including our company — to lower costs. Such pressure may cause some factories to cut corners in an attempt to lower expenses. For example, a factory may stop paying legally-mandated overtime premiums, which is a key violation of our Code of Vendor Conduct. In these circumstances, a factory's rating could fall significantly.

Other factors may be more complex. In India, minimum wage requirements were increased substantially in select states, and many of our factories in those regions had difficulty keeping up with the sudden increase in a timely manner. As a result, their ratings fell as they struggled to adjust. Likewise, in Cambodia, we have begun to use the monitoring findings of the International Labor Organization (ILO). The ILO utilizes multiple auditors over a longer period of time, resulting in the identification of more violations.

Moving forward, we will continue to monitor factory trends and seek to understand the forces at work in various regions. We are also open to shifting our approach if we find one that is more effective, and we are committed to working with factories to achieve the highest ratings possible by helping them improve their internal human resource management systems. Our data provides a basis for improving on our work and measuring our progress.

2008 Factory Ratings by Geographic Region

Region	Level 1 (%) Urgent attention required	Level 2 (%) Needs improvement	Level 3 (%) Fair	Level 4 (%) Good	Level 5 (%) Excellent
Greater China	4.6	8.2	28.7	24.1	34.4
North Asia	0.0	11.8	52.7	23.6	11.8
Southeast Asia	7.9	11.8	22.6	25.8	31.9
South Asia	18.0	25.6	39.3	11.1	5.9
Persian Gulf	0.0	0.0	50.0	0.0	50.0
North Africa & the Middle East	24.3	32.4	13.5	13.5	16.2
Sub-Saharan Africa	8.0	0.0	36.0	24.0	32.0
Europe	4.9	2.4	34.1	29.3	29.3
United States and Canada	0.0	4.3	13.0	13.0	69.6
Mexico, Central America & the Caribbean	1.4	4.2	22.5	22.5	49.3
South America	0.0	18.5	18.5	33.3	29.6
Total	8.7	14.1	31.2	20.9	25.2

Note:

In 2007, we implemented a new data management system, which required us to change the way that we calculate factory ratings. Similar to 2005 and 2006, the new 2007 and 2008 rating calculation is based on the number and type of violations documented during inspections. However, we changed the relative weight of violations in the new rating calculation to account for the greater level of violation detail that our new data system is able to track by factory. Data represents fiscal year.

2007 Factory Ratings by Geographic Region

Region	Level 1 (%) Urgent attention required	Level 2 (%) Needs improvement	Level 3 (%) Fair	Level 4 (%) Good	Level 5 (%) Excellent
Greater China	4.2	7.8	29.0	27.5	31.4
North Asia	0.0	19.3	34.8	31.1	14.9
Southeast Asia	2.7	6.0	23.7	28.4	39.1
South Asia	19.2	22.6	27.8	20.9	9.5
Persian Gulf	0.0	0.0	60.0	20.0	20.0
North Africa & the Middle East	17.8	24.4	24.4	8.9	24.4
Sub-Saharan Africa	18.8	9.4	31.3	18.8	21.9
Europe	2.8	12.7	42.3	19.7	22.5
United States and Canada	0.0	0.0	5.1	17.9	76.9
Mexico, Central America & the Caribbean	0.0	3.3	28.6	29.7	38.5
South America	5.3	10.5	28.9	18.4	36.8
Total	7.3	12.6	28.3	25.0	26.8

Note:

In 2007, we implemented a new data management system, which required us to change the way that we calculate factory ratings. Similar to 2005 and 2006, the new 2007 and 2008 rating calculation is based on the number and type of violations documented during inspections. However, we changed the relative weight of violations in the new rating calculation to account for the greater level of violation detail that our new data system is able to track by factory. Data represents fiscal year.

2006 Factory Ratings by Geographic Region

Region	Level 1 (%) Urgent attention required	Level 2 (%) Needs improvement	Level 3 (%) Fair	Level 4 (%) Good	Level 5 (%) Excellent
Greater China	1.0	7.0	15.0	42.0	35.0
North Asia	0.0	4.0	18.0	37.0	41.0
Southeast Asia	3.0	12.0	32.0	29.0	24.0
South Asia	14.0	14.0	30.0	28.0	14.0
Persian Gulf	0.0	28.0	36.0	27.0	9.0
North Africa & the Middle East	32.0	11.0	18.0	11.0	28.0
Sub-Saharan Africa	9.0	16.0	22.0	31.0	22.0
Europe	4.0	10.0	25.0	30.0	31.0
United States and Canada	0.0	0.0	6.0	16.0	78.0
Mexico, Central America & the Caribbean	5.0	9.0	17.0	22.0	47.0
South America	2.0	5.0	24.0	43.0	26.0
Total	5.0	10.0	24.0	31.0	30.0

Note:

In 2007, we implemented a new data management system, which required us to change the way that we calculate factory ratings. Similar to 2005 and 2006, the new 2007 and 2008 rating calculation is based on the number and type of violations documented during inspections. However, we changed the relative weight of violations in the new rating calculation to account for the greater level of violation detail that our new data system is able to track by factory. The 2006 ratings in the above chart are the same as those reported in our 2005/2006 Social Responsibility Report. Data represents fiscal year.

2005 Factory Ratings by Geographic Region

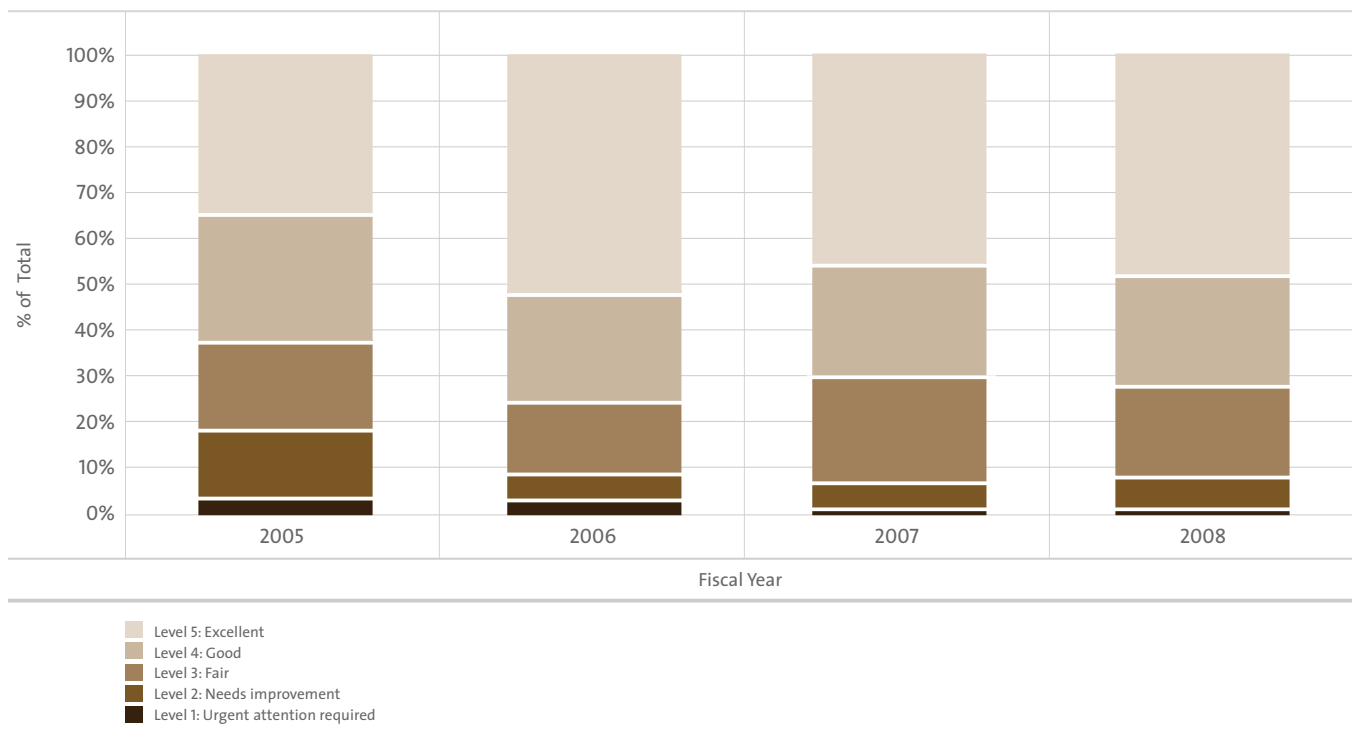
Region	Level 1 (%) Urgent attention required	Level 2 (%) Needs improvement	Level 3 (%) Fair	Level 4 (%) Good	Level 5 (%) Excellent
Greater China	6.0	15.0	27.0	36.0	16.0
North Asia	2.0	11.0	13.0	34.0	40.0
Southeast Asia	5.0	10.0	24.0	36.0	25.0
South Asia	5.0	12.0	26.0	37.0	20.0
Persian Gulf	0.0	0.0	31.0	38.0	31.0
North Africa & the Middle East	26.0	19.0	19.0	23.0	13.0
Sub-Saharan Africa	16.0	19.0	24.0	27.0	14.0
Europe	9.0	27.0	21.0	24.0	19.0
United States and Canada	0.0	0.0	6.0	40.0	54.0
Mexico, Central America & the Caribbean	8.0	19.0	17.0	23.0	33.0
South America	0.0	28.0	28.0	28.0	16.0
Total	6.0	14.0	23.0	34.0	23.0

Note:

In 2007, we implemented a new data management system, which required us to change the way that we calculate factory ratings. Similar to 2005 and 2006, the new 2007 and 2008 rating calculation is based on the number and type of violations documented during inspections. However, we changed the relative weight of violations in the new rating calculation to account for the greater level of violation detail that our new data system is able to track by factory. The 2005 ratings in the above chart are the same as those reported in our 2005/2006 Social Responsibility Report. Data represents fiscal year.

The factories that we work with in the Americas are among those with the highest ratings worldwide. In 2008, 49 percent of factories in this region attained a Level 5 rating, while only 1 percent were rated Level 1. We believe that our monitoring has been especially effective in this region due to very low turnover among our team of Vendor Compliance Officers. Many have been working with us for a decade or more and have developed strong relationships with factory managers, workers and local human rights organizations. This trust, and the progress it has enabled, will provide lessons for us in other regions where progress has been more challenging.

2005 - 2008 Factory Ratings in The Americas

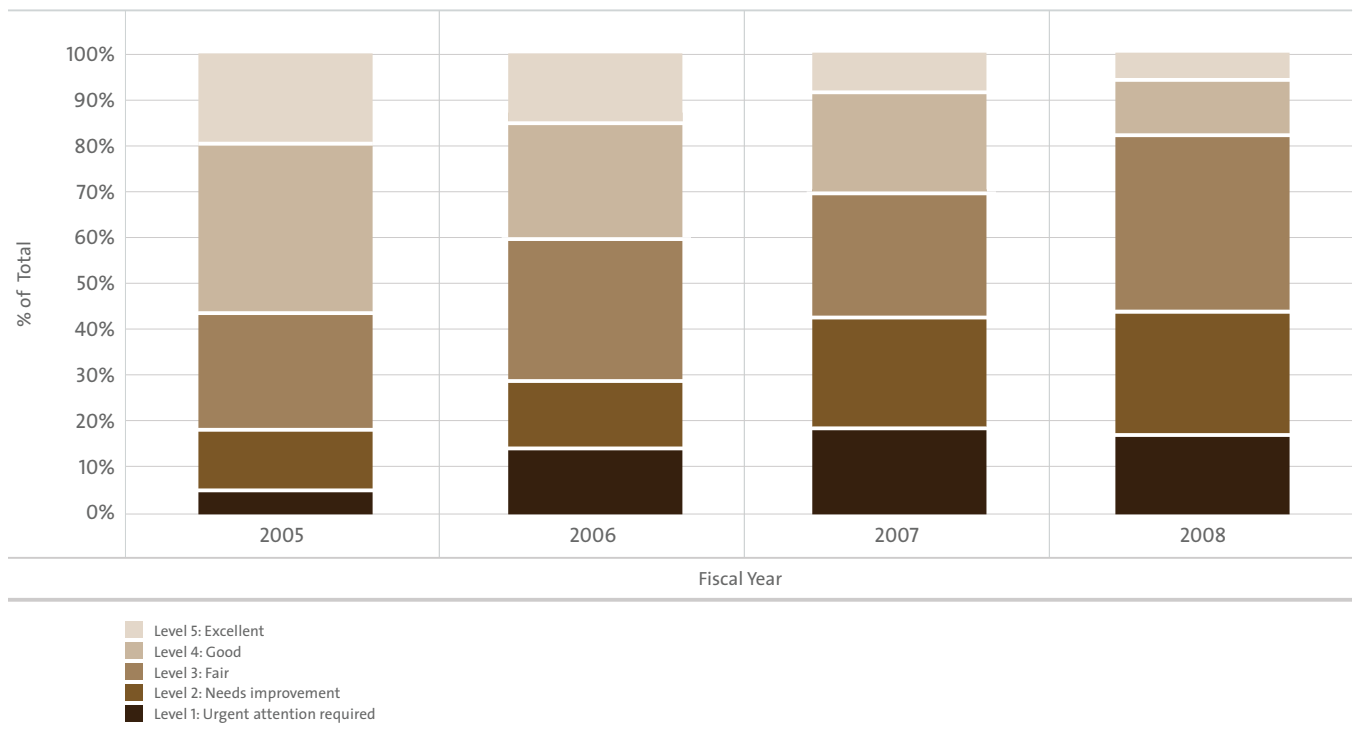


Note:

In 2007, we implemented a new data management system, which required us to change the way that we calculate factory ratings. Similar to 2005 and 2006, the new 2007 and 2008 rating calculation is based on the number and type of violations documented during inspections. However, we changed the relative weight of violations in the new rating calculation to account for the greater level of violation detail that our new data system is able to track by factory. Data represents fiscal year. The Americas includes Canada, United States, Mexico, Haiti, The Dominican Republic, El Salvador, Honduras, Nicaragua, Guatemala, Colombia, Peru, and Brazil.

Trends in South Asia stand out from other regions. While a significant percentage of factories in the region have achieved a Level 3 (fair) rating, the percentage of Level 1 factories (those that require urgent attention) has risen from 5 percent to 18 percent since 2005. In addition, the percentage of Level 5 factories (the top category) has dropped from 20 percent to 6 percent. We are looking beyond the numbers to understand the causes of these changes and how we can most effectively address them. Additional information regarding our work in South Asia is available below the chart.

2005 - 2008 Factory Ratings in South Asia



Note:

In 2007, we implemented a new data management system, which required us to change the way that we calculate factory ratings. Similar to 2005 and 2006, the new 2007 and 2008 rating calculation is based on the number and type of violations documented during inspections. However, we changed the relative weight of violations in the new rating calculation to account for the greater level of violation detail that our new data system is able to track by factory. Data represents fiscal year. South Asia includes India, Pakistan, Bangladesh, Sri Lanka and Nepal.

Several factors are likely contributing to this trend. In an effort to drive improvements, our Vendor Compliance Officers (VCOs) in this region are conducting more visits, resulting in the identification of more issues. In addition, VCOs in this part of the world have a shorter tenure than in other regions, due to greater competition for their skills. As a result, they’ve had less opportunity to build relationships with factory managers and work with them to make improvements.

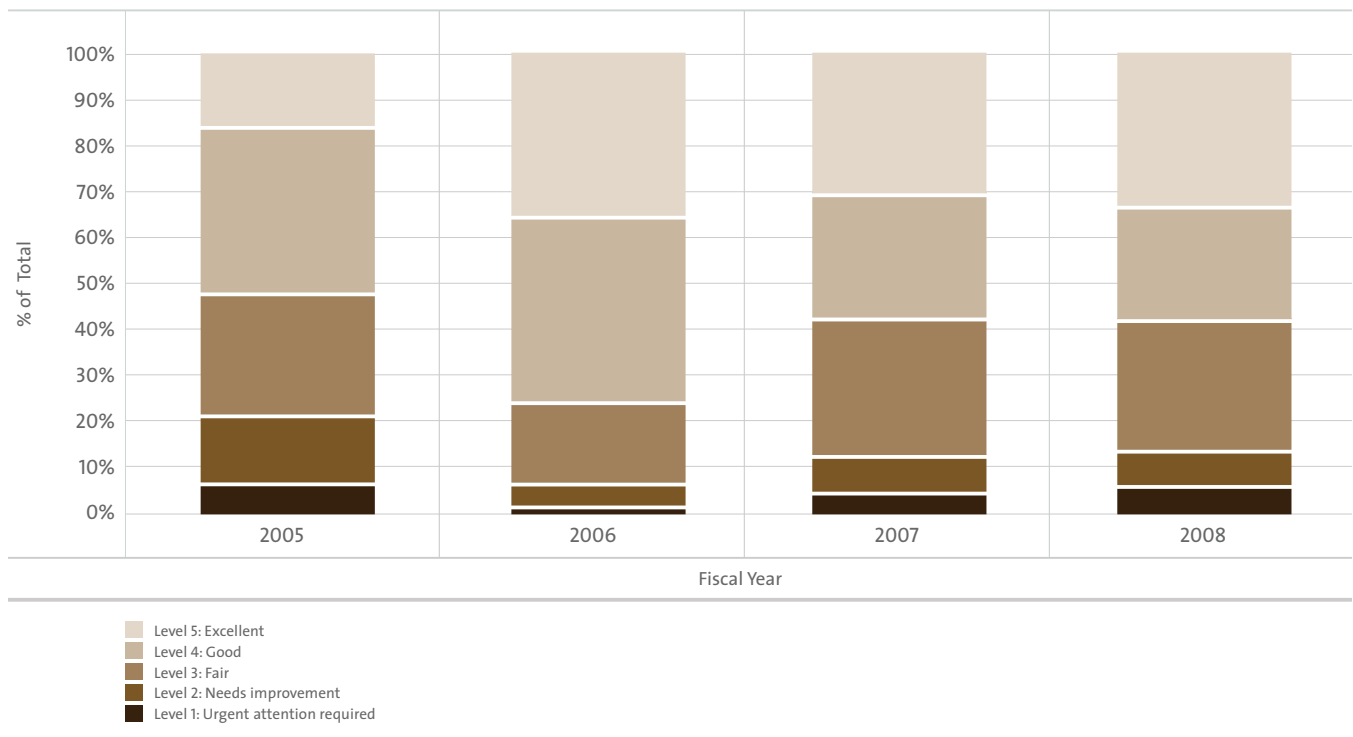
(continued from previous page)

Also, the overall economic climate may be contributing to factory trends. While the number of factories that we work with in South Asia has remained fairly constant, in general, factories in this part of the world are handling a greater amount of production. It's possible that this increase is putting pressure on the systems within individual factories.

We are working to better understand and address these developments and will provide updates as we gain new insights and make progress.

In 2008, factories in Greater China represented 23 percent of our factory base. Of these, more than 85 percent have attained a rating of Level 3 or higher. Since 2005, we have increased the number of Level 5 (top-rated) factories from 16 percent to 34 percent. Still, we have more work to do in addressing issues at factories with lower ratings. Additional information regarding our work in Greater China is available below the chart.

2005 - 2008 Factory Ratings in Greater China



Note:

In 2007, we implemented a new data management system, which required us to change the way that we calculate factory ratings. Similar to 2005 and 2006, the new 2007 and 2008 rating calculation is based on the number and type of violations documented during inspections. However, we changed the relative weight of violations in the new rating calculation to account for the greater level of violation detail that our new data system is able to track by factory. Data represents fiscal year. Greater China includes China, Hong Kong and Taiwan.

Historically, challenges in Greater China have included rapid growth and a focus on productivity, with less emphasis by factory management on the benefits of improving working conditions. We have also faced intense competition for the skills of our Vendor Compliance Officers, leading to higher turnover and less opportunity for them to forge the long-term relationships that promote progress.

We're committed to working with factories in this region to make improvements. A key element of our strategy is to help shift the perspective of factory management from compliance to recognizing that improving factory conditions is also good for business.

We look for the story behind our data to understand trends, pinpoint issues that need our attention and learn what has been effective. One example: the percentage of factories that we did not approve increased between 2007 and 2008. As our business needs changed, we explored new factory relationships — and with this more diverse pool, more factories failed to make the cut (19 percent in 2008 vs. 13 percent in 2007). We take this rising number as a sign that our program is working, as we reject factories that are not willing or able to meet our standards.

2008 Factory Approval

Region	Number of New Factories Evaluated	Approved (%)	Not Approved (%)	Pending (%)
Greater China	84	66.7	29.8	3.6
North Asia	12	91.7	8.3	0.0
Southeast Asia	84	79.8	14.3	6.0
South Asia	105	74.3	16.2	9.5
Persian Gulf	0	0.0	0.0	0.0
North Africa & the Middle East	26	69.2	30.8	0.0
Sub-Saharan Africa	7	100.0	0.0	0.0
Europe	19	63.2	36.8	0.0
United States and Canada	9	100.0	0.0	0.0
Mexico, Central America & the Caribbean	39	84.6	12.8	2.6
South America	2	100.0	0.0	0.0
Total	387	75.7	19.4	4.9

Note:
Data represents factory status as of 3/23/09. Data represents fiscal year.

2007 Factory Approval

Region	Number of New Factories Evaluated	Approved (%)	Not Approved (%)	Pending (%)
Greater China	96	83.3	16.7	0.0
North Asia	10	100.0	0.0	0.0
Southeast Asia	95	91.6	8.4	0.0
South Asia	99	91.9	8.1	0.0
Persian Gulf	2	100.0	0.0	0.0
North Africa & the Middle East	41	63.4	34.1	2.4
Sub-Saharan Africa	16	68.8	25.0	6.3
Europe	45	80.0	20.0	0.0
United States and Canada	17	94.1	5.9	0.0
Mexico, Central America & the Caribbean	36	97.2	2.8	0.0
South America	4	100.0	0.0	0.0
Total	461	86.3	13.2	0.4

Note:

Data represents factory status as of 3/23/09. Data represents fiscal year.

We monitor nearly 100 percent of our garment factories, in countries ranging from Peru to Sri Lanka. What this means in practice is that our Vendor Compliance Officers (VCOs) visit a factory through both announced and unannounced visits to establish relationships with management and workers and to gain an accurate picture of how the factory is run. When possible, they also develop relationships with local NGOs and trade unions, whose close ties with workers often enable them to provide our VCOs with information they would not otherwise uncover during a standard evaluation of a factory. Our presence signals to factories that we will hold them accountable for problems and expect them to meet the standards outlined in our Code of Vendor Conduct in order to work with us.

2008 Factory Monitoring

Region	Active Full Year (# of factories)	Active Full Year Visited (# of factories)	Percentage Visited (%)
Greater China	243	243	100.0
North Asia	89	89	100.0
Southeast Asia	243	243	100.0
South Asia	246	245	99.6
Persian Gulf	2	2	100.0
North Africa & the Middle East	29	27	93.1
Sub-Saharan Africa	23	21	91.3
Europe	27	27	100.0
United States and Canada	28	26	92.9
Mexico, Central America & the Caribbean	71	67	94.4
South America	26	26	100.0
Total	1027	1016	98.9

Note:

Active full year denotes factories that Gap Inc. has approved and worked with for the full year reported. Data represents fiscal year.

2007 Factory Monitoring

Region	Active Full Year (# of factories)	Active Full Year Visited (# of factories)	Percentage Visited (%)
Greater China	265	264	99.6
North Asia	121	119	98.3
Southeast Asia	254	244	96.1
South Asia	290	281	96.9
Persian Gulf	6	5	83.3
North Africa & the Middle East	41	39	95.1
Sub-Saharan Africa	32	31	96.9
Europe	72	62	86.1
United States and Canada	41	34	82.9
Mexico, Central America & the Caribbean	88	78	88.6
South America	31	28	90.3
Total	1241	1185	95.5

Note:

Active full year denotes factories that Gap Inc. has approved and worked with for the full year reported. Data represents fiscal year. In 2007, we changed the system that we use to collect monitoring data in order to increase the level of detail tracked by factory. As a result, 32 factory evaluations were not transferable to our new system. Had we been able to transfer those 32 records, the percent of active full-year factories visited in 2007 would have been 98.1 percent.

2006 Factory Monitoring

Region	Active Full Year (# of factories)	Active Full Year Visited (# of factories)	Percentage Visited (%)
Greater China	267	267	100.0
North Asia	40	40	100.0
Southeast Asia	396	393	99.2
South Asia	280	277	98.9
Persian Gulf	11	11	100.0
North Africa & the Middle East	25	25	100.0
Sub-Saharan Africa	33	32	97.0
Europe	76	76	100.0
United States and Canada	60	59	98.3
Mexico, Central America & the Caribbean	87	87	100.0
South America	28	28	100.0
Total	1303	1295	99.4

Note:

Active full year denotes factories that Gap Inc. has approved and worked with for the full year reported. Data represents fiscal year.

What do we do when we find violations of our Code of Vendor Conduct (COVC) in factories?

We work closely with factory management to develop a plan for improvement based on the number and severity of issues.

Some solutions may be as simple as posting information in a public place or stacking boxes in a different way. In other cases, the issue may be more complex or recurring, calling for a better understanding of what's causing the problem so that it can be effectively addressed.

Our first approach is to work with management in an attempt to resolve issues. However, we will stop working with a factory if there are significant recurring violations of the standards outlined in our COVC and the factory lacks the intent or ability to resolve them.

See next page for 2008 Code of Vendor Conduct Violations

2008 COVC Violations by Region (chart I)

COVC ID	Description	Greater China 356 Factories	North Asia 57 Factories
I_A	Does not operate in compliance with local laws	✘	✘
I_B	Does not allow unrestricted access	■	●
II_A	Does not have an EMS	✘	●
II_B	Insufficient environmental emergency plan	●	●
III_A	Discriminatory hiring policy	◆	★
III_B	Discriminatory distribution of wages and benefits	★	★
IV_A	Uses involuntary labor	★	★
IV_B	Employee contract in home country	▲	★
V_A	Employs workers below the legal minimum age	▲	★
V_B	Not in full compliance with laws for young workers	■	★
V_C	Does not encourage continuing education	★	★
V_D	Does not maintain official documentation of age	●	●
VI_A	Does not pay minimum wage or industry standard	●	●
VI_B	Does not pay overtime and incentives as required	■	●
VI_C	Does not avoid excessive overtime	■	▲
VI_D	Does not allow workers to refuse overtime	▲	★
VI_E	Does not provide one (1) day off in seven (7)	■	▲
VI_F	Does not provide leave and holidays as required	■	●
VI_G	Does not provide understandable wage statement	●	●
VII_A	Does not prohibit physical punishment or coercion	★	★
VII_B	Does not prohibit psychological abuse or coercion	▲	★
VII_C	Does not comply with health and safety laws	▲	★
VII_D	Does not provide sufficient lighting	◆	★
VII_E	Does not provide sufficient ventilation	■	★
VII_F	Does not maintain sufficient, clearly marked exits and routes	●	■
VII_G	Obstructed aisles, exits or stairwells	●	●
VII_H	Does not keep exits accessible and unlocked	▲	▲
VII_I	Does not maintain appropriate fire extinguishers	●	■
VII_J	Does not maintain fire alarms and emergency lights	●	■
VII_K	Does not conduct annual evacuation drills	■	●
VII_L	Machinery lacks some operational safety devices	✘	■
VII_M	Does not provide appropriate PPE	✘	■
VII_N	Does not provide potable water	▲	★
VII_O	Does not provide a first aid kit on each floor	●	●
VII_P	Does not maintain sanitary toilet facilities	▲	▲
VII_Q	Does not store and dispose of hazardous materials appropriately	✘	✘
VIII_A	Does not permit workers to organize	★	★
VIII_B	Penalizes workers' efforts to organize	★	★

★	No code violations found
◆	Violations verified in less than 1% of factories
▲	Violations verified in 1-9.99% of factories
■	Violations verified in 10-24.99% of factories
●	Violations verified in 25-49.99% of factories
✘	Violations verified in more than 50% of factories

Note:

Data represents the percentage of factories by region that had a specific Code of Vendor Conduct violation outstanding (irrespective of when the violation was identified) at some point during fiscal year 2008.

2008 COVC Violations by Region (chart II)

COVC ID	Description	South Asia 400 Factories	Southeast Asia 408 Factories
I_A	Does not operate in compliance with local laws	✘	●
I_B	Does not allow unrestricted access	●	■
II_A	Does not have an EMS	●	✘
II_B	Insufficient environmental emergency plan	▲	■
III_A	Discriminatory hiring policy	▲	▲
III_B	Discriminatory distribution of wages and benefits	▲	★
IV_A	Uses involuntary labor	◆	★
IV_B	Employee contract in home country	▲	◆
V_A	Employs workers below the legal minimum age	◆	▲
V_B	Not in full compliance with laws for young workers	▲	▲
V_C	Does not encourage continuing education	◆	★
V_D	Does not maintain official documentation of age	■	■
VI_A	Does not pay minimum wage or industry standard	✘	●
VI_B	Does not pay overtime and incentives as required	●	▲
VI_C	Does not avoid excessive overtime	●	●
VI_D	Does not allow workers to refuse overtime	▲	▲
VI_E	Does not provide one (1) day off in seven (7)	●	■
VI_F	Does not provide leave and holidays as required	■	■
VI_G	Does not provide understandable wage statement	■	■
VII_A	Does not prohibit physical punishment or coercion	▲	★
VII_B	Does not prohibit psychological abuse or coercion	■	▲
VII_C	Does not comply with health and safety laws	✘	●
VII_D	Does not provide sufficient lighting	■	■
VII_E	Does not provide sufficient ventilation	■	●
VII_F	Does not maintain sufficient, clearly marked exits and routes	●	■
VII_G	Obstructed aisles, exits or stairwells	✘	●
VII_H	Does not keep exits accessible and unlocked	▲	▲
VII_I	Does not maintain appropriate fire extinguishers	●	■
VII_J	Does not maintain fire alarms and emergency lights	●	■
VII_K	Does not conduct annual evacuation drills	■	■
VII_L	Machinery lacks some operational safety devices	✘	✘
VII_M	Does not provide appropriate PPE	✘	●
VII_N	Does not provide potable water	●	■
VII_O	Does not provide a first aid kit on each floor	●	●
VII_P	Does not maintain sanitary toilet facilities	■	●
VII_Q	Does not store and dispose of hazardous materials appropriately	✘	✘
VIII_A	Does not permit workers to organize	■	■
VIII_B	Penalizes workers' efforts to organize	◆	▲

- ★ No code violations found
- ◆ Violations verified in less than 1% of factories
- ▲ Violations verified in 1-9.99% of factories
- Violations verified in 10-24.99% of factories
- Violations verified in 25-49.99% of factories
- ✘ Violations verified in more than 50% of factories

Note:

Data represents the percentage of factories by region that had a specific Code of Vendor Conduct violation outstanding (irrespective of when the violation was identified) at some point during fiscal year 2008.

2008 COVC Violations by Region (chart III)

COVC ID	Description	North Africa/ Middle East 67 Factories	Sub-Saharan Africa 36 Factories
I_A	Does not operate in compliance with local laws	✘	●
I_B	Does not allow unrestricted access	●	■
II_A	Does not have an EMS	●	▲
II_B	Insufficient environmental emergency plan	★	★
III_A	Discriminatory hiring policy	▲	★
III_B	Discriminatory distribution of wages and benefits	▲	★
IV_A	Uses involuntary labor	★	★
IV_B	Employee contract in home country	■	★
V_A	Employs workers below the legal minimum age	▲	★
V_B	Not in full compliance with laws for young workers	▲	★
V_C	Does not encourage continuing education	★	★
V_D	Does not maintain official documentation of age	▲	●
VI_A	Does not pay minimum wage or industry standard	■	●
VI_B	Does not pay overtime and incentives as required	●	▲
VI_C	Does not avoid excessive overtime	●	●
VI_D	Does not allow workers to refuse overtime	●	■
VI_E	Does not provide one (1) day off in seven (7)	●	●
VI_F	Does not provide leave and holidays as required	■	★
VI_G	Does not provide understandable wage statement	●	▲
VII_A	Does not prohibit physical punishment or coercion	★	★
VII_B	Does not prohibit psychological abuse or coercion	●	■
VII_C	Does not comply with health and safety laws	●	■
VII_D	Does not provide sufficient lighting	●	▲
VII_E	Does not provide sufficient ventilation	●	■
VII_F	Does not maintain sufficient, clearly marked exits and routes	✘	●
VII_G	Obstructed aisles, exits or stairwells	✘	✘
VII_H	Does not keep exits accessible and unlocked	●	■
VII_I	Does not maintain appropriate fire extinguishers	✘	●
VII_J	Does not maintain fire alarms and emergency lights	✘	✘
VII_K	Does not conduct annual evacuation drills	■	●
VII_L	Machinery lacks some operational safety devices	✘	✘
VII_M	Does not provide appropriate PPE	✘	●
VII_N	Does not provide potable water	■	▲
VII_O	Does not provide a first aid kit on each floor	✘	●
VII_P	Does not maintain sanitary toilet facilities	●	✘
VII_Q	Does not store and dispose of hazardous materials appropriately	●	■
VIII_A	Does not permit workers to organize	★	▲
VIII_B	Penalizes workers' efforts to organize	★	▲

★	No code violations found
◆	Violations verified in less than 1% of factories
▲	Violations verified in 1-9.99% of factories
■	Violations verified in 10-24.99% of factories
●	Violations verified in 25-49.99% of factories
✘	Violations verified in more than 50% of factories

Note:

Data represents the percentage of factories by region that had a specific Code of Vendor Conduct violation outstanding (irrespective of when the violation was identified) at some point during fiscal year 2008.

2008 Code Violations by Region (Chart IV)

COVC ID	Description	U.S./ Canada 38 Factories	Mexico, Central America and the Caribbean 99 Factories	South America 33 Factories
I_A	Does not operate in compliance with local laws	✘	●	●
I_B	Does not allow unrestricted access	▲	■	▲
II_A	Does not have an EMS	✘	●	●
II_B	Insufficient environmental emergency plan	▲	▲	▲
III_A	Discriminatory hiring policy	▲	▲	▲
III_B	Discriminatory distribution of wages and benefits	★	★	★
IV_A	Uses involuntary labor	★	★	★
IV_B	Employee contract in home country	★	▲	▲
V_A	Employs workers below the legal minimum age	★	★	★
V_B	Not in full compliance with laws for young workers	★	★	★
V_C	Does not encourage continuing education	★	▲	★
V_D	Does not maintain official documentation of age	★	▲	▲
VI_A	Does not pay minimum wage or industry standard	★	■	●
VI_B	Does not pay overtime and incentives as required	★	▲	▲
VI_C	Does not avoid excessive overtime	■	▲	■
VI_D	Does not allow workers to refuse overtime	▲	▲	★
VI_E	Does not provide one (1) day off in seven (7)	▲	▲	▲
VI_F	Does not provide leave and holidays as required	★	▲	■
VI_G	Does not provide understandable wage statement	▲	▲	■
VII_A	Does not prohibit physical punishment or coercion	★	★	★
VII_B	Does not prohibit psychological abuse or coercion	▲	■	▲
VII_C	Does not comply with health and safety laws	●	■	✘
VII_D	Does not provide sufficient lighting	★	▲	▲
VII_E	Does not provide sufficient ventilation	■	●	●
VII_F	Does not maintain sufficient, clearly marked exits and routes	●	●	✘
VII_G	Obstructed aisles, exits or stairwells	✘	●	✘
VII_H	Does not keep exits accessible and unlocked	▲	▲	★
VII_I	Does not maintain appropriate fire extinguishers	●	●	●
VII_J	Does not maintain fire alarms and emergency lights	●	■	●
VII_K	Does not conduct annual evacuation drills	●	■	■
VII_L	Machinery lacks some operational safety devices	●	●	●
VII_M	Does not provide appropriate PPE	■	■	✘
VII_N	Does not provide potable water	★	▲	■
VII_O	Does not provide a first aid kit on each floor	✘	●	■
VII_P	Does not maintain sanitary toilet facilities	▲	■	■
VII_Q	Does not store and dispose of hazardous materials appropriately	■	●	●
VIII_A	Does not permit workers to organize	★	▲	★
VIII_B	Penalizes workers' efforts to organize	★	▲	▲

- ★ No code violations found
- ◆ Violations verified in less than 1% of factories
- ▲ Violations verified in 1-9.99% of factories
- Violations verified in 10-24.99% of factories
- Violations verified in 25-49.99% of factories
- ✘ Violations verified in more than 50% of factories

Note:

Data represents the percentage of factories by region that had a specific Code of Vendor Conduct violation outstanding (irrespective of when the violation was identified) at some point during fiscal year 2008.

2008 Code Violations by Region (Chart V)

COVC ID	Description	Europe 63 Factories	Persian Gulf 2 Factories
I_A	Does not operate in compliance with local laws	▲	✘
I_B	Does not allow unrestricted access	▲	★
II_A	Does not have an EMS	▲	★
II_B	Insufficient environmental emergency plan	▲	★
III_A	Discriminatory hiring policy	★	★
III_B	Discriminatory distribution of wages and benefits	★	★
IV_A	Uses involuntary labor	★	★
IV_B	Employee contract in home country	★	✘
V_A	Employs workers below the legal minimum age	★	★
V_B	Not in full compliance with laws for young workers	■	★
V_C	Does not encourage continuing education	▲	★
V_D	Does not maintain official documentation of age	★	★
VI_A	Does not pay minimum wage or industry standard	●	★
VI_B	Does not pay overtime and incentives as required	●	★
VI_C	Does not avoid excessive overtime	■	✘
VI_D	Does not allow workers to refuse overtime	▲	✘
VI_E	Does not provide one (1) day off in seven (7)	■	★
VI_F	Does not provide leave and holidays as required	▲	★
VI_G	Does not provide understandable wage statement	■	✘
VII_A	Does not prohibit physical punishment or coercion	★	★
VII_B	Does not prohibit psychological abuse or coercion	■	★
VII_C	Does not comply with health and safety laws	✘	★
VII_D	Does not provide sufficient lighting	★	★
VII_E	Does not provide sufficient ventilation	■	★
VII_F	Does not maintain sufficient, clearly marked exits and routes	■	★
VII_G	Obstructed aisles, exits or stairwells	●	✘
VII_H	Does not keep exits accessible and unlocked	▲	★
VII_I	Does not maintain appropriate fire extinguishers	■	★
VII_J	Does not maintain fire alarms and emergency lights	●	★
VII_K	Does not conduct annual evacuation drills	●	✘
VII_L	Machinery lacks some operational safety devices	●	★
VII_M	Does not provide appropriate PPE	■	★
VII_N	Does not provide potable water	■	★
VII_O	Does not provide a first aid kit on each floor	●	✘
VII_P	Does not maintain sanitary toilet facilities	▲	★
VII_Q	Does not store and dispose of hazardous materials appropriately	●	★
VIII_A	Does not permit workers to organize	★	★
VIII_B	Penalizes workers' efforts to organize	★	★

★	No code violations found
◆	Violations verified in less than 1% of factories
▲	Violations verified in 1-9.99% of factories
■	Violations verified in 10-24.99% of factories
●	Violations verified in 25-49.99% of factories
✘	Violations verified in more than 50% of factories

Note:

Data represents the percentage of factories by region that had a specific Code of Vendor Conduct violation outstanding (irrespective of when the violation was identified) at some point during fiscal year 2008.

Goals and Progress

Environment

Full Section

Running a sustainable company that cares for the environment is everyone's business at Gap Inc.

It's a responsibility we take seriously across our company and supplier relationships — from the product groups who seek sustainable design solutions and the denim laundries that meet our wastewater standards to our store managers who conserve energy and reduce waste.

We see ourselves as not just running a company, but also living and working on a planet that's under growing stress. We do this work with a sense of urgency. In order to drive new ideas and identify projects that can maximize our effectiveness, we are:

Calculating our environmental footprint through a detailed assessment of our business operations, which will give us the data to prioritize our environmental initiatives.

Involving the entire company, from our Environmental Council — comprised of key employees across the company — to our board of directors, who regularly receive updates on our environmental initiatives.

Championing grassroots action across our employee community through initiatives such as an internal blog (a forum for sharing ideas on how to improve personal and corporate environmental sustainability) and annual Earth Week celebrations.

Partnering with external environmental groups such as Ceres and the National Resources Defense Council (NRDC) to find new opportunities for progress.

Some of our best ideas and biggest advances begin with acknowledging what we don't know.

In executing our environmental strategy, we've realized that we need a better understanding of the impact we make across our company's operations.

So in 2008, we launched an environmental footprint assessment — a detailed accounting of how our business affects the environment. This analysis will give us the information to set long-term environmental goals, direct our resources to operate more efficiently and better address climate and regulatory risks.

Gap Inc. Supply Chain
Environmental Footprint Scope

PHASE I				PHASE II
Retail Stores (sell clothes)	Transportation (transport clothes)	Distribution Centers (send shipments to stores)	HQ and Studios (product planning/ design)	Factories (cut and sew fabric)

The first phase of our environmental footprint assessment focuses on regions and facilities where we control operations and can make changes most easily. It includes our 11 headquarters (HQ) buildings, five design studios, seven distribution center campuses, and more than 2,800 stores in our North American fleet. Scheduled to be completed in 2009, this first phase will examine energy, water usage, effluents and waste (including wastewater, solid waste and hazardous waste).

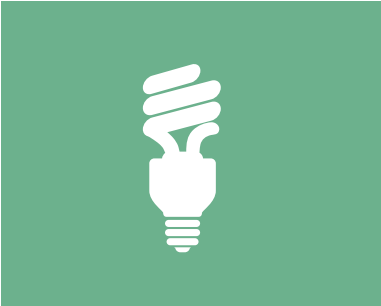
The second phase of our assessment will focus further into our supply chain, where we have less direct influence but greater opportunity for impact. We expect to begin the second phase in early 2010.

As this work unfolds, we're also assessing the various links between our environmental and social goals. For example, how can our environmental commitments support the work we do on human rights in our supply chain, our employee programs and our foundation's community investments?

We've developed a comprehensive approach to our environmental work focused on three areas where we can have the greatest positive impact: reducing energy use; shifting to more sustainable design and fabrics; and reducing waste.

Our shorthand for this focus is ECO.

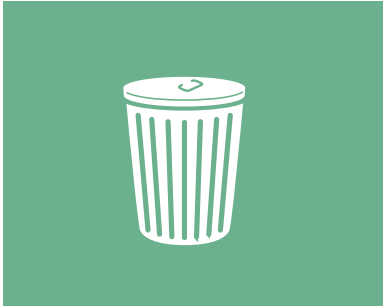
Our ECO Focus



Energy conservation



**Cotton/
sustainable design**



Output and waste

Taking action on climate change means taking action on energy management.

Since 2003, we've participated in the U.S. Environmental Protection Agency's Climate Leaders Program to reduce energy use and greenhouse gas emissions.

In order to meet the broad scope and high degree of transparency required by the Climate Leaders Program, we collect and report on greenhouse gas emissions data for our store operations. We're pleased to report that we've reduced our greenhouse gas emissions by 20 percent from 2003 to 2008, exceeding our climate leaders goal of 11 percent over that five-year period.

Our future goals for energy management will be informed by our environmental footprint assessment. Meanwhile, we continue to make changes, and measurable progress, across Gap Inc. For example:

In our stores, managers are reducing energy use with the help of our Energy Management Program. The program identifies stores with high energy use and works with the managers of those stores to ensure that they're focused on energy conservation. To help managers succeed, we provide training materials and tips on reducing energy use along with targets for store-level energy reduction (in KWH/SQFT).

In our distribution centers, we've replaced lighting fixtures with energy-efficient fluorescent lights that maintain quality lighting while significantly reducing our energy use and costs. We've also installed a one-megawatt solar array at one of our distribution centers in Fresno, California.

Our employees have the creative talent and drive to design a sustainable future.

They bring to life our brands, which are the heart of our company. In the process, they have the opportunity to benefit the environment by defining sustainable design for their brand and their customers.

In broad terms, we think of sustainable design as a powerful way to improve the environmental qualities inherent in the design of items related to our business — from the products we sell and the packaging we use to the design of our stores.

“For an apparel company, the product is your soul. What is the body? It’s the store design. Store design is important to the customer because you are creating an environment from the moment someone walks in. And anything that goes into the design of the store can make it more sustainable—the structure, the lighting, the air-conditioning, even the paint.”

– Franky Mo, LEED® AP, sr. manager, Environmental Affairs, Global Responsibility, Gap Inc.

We support sustainable design innovation in each of our brands. Our brands also collaborate by sharing ideas and practices in the following sustainable design areas:

- Ensuring clean water practices at denim laundries
- Improving product packaging
- Using alternative fibers
- Designing more sustainable stores

We use our size and global partnerships to help build momentum for new ideas. For instance, Gap Inc. is a founding member of the Better Cotton Initiative, a collaborative, multi-stakeholder effort aimed at promoting environmentally, socially and economically sustainable cotton cultivation practices.

Given our size, everyday activities such as printing documents or shipping garments in plastic bags can have a significant environmental impact. By taking a close look at our practices, we're finding new ways to reduce waste and use natural resources wisely.

Some of our key initiatives in this area include:

- **Solid Waste and Recycling Program:** We continue to reduce solid waste across our stores, distribution centers and headquarters offices.
- **Reduced corrugate cardboard use:** We're moving to new containers at our distribution centers that use less corrugate and are made of a recyclable material. We anticipate that this program will reduce cardboard waste by 57,000 tons and save approximately \$20 million each year. By changing our shipping practices, we also expect to eliminate 63 million yards of plastic strapping.
- **Clean Water Program:** Making denim requires chemicals, dyes and a significant amount of water. We've made progress in helping the denim laundries with which we work to treat wastewater so that it's safe and clean when it leaves the facility.
- **Recycling at malls:** Much of our waste comes from our fleet of stores — and most of our stores are in shopping malls. We're working to recycle store waste at shopping malls by collaborating with developers and other like-minded retailers.

Our waste-reduction initiatives are likely to evolve once the results of the first phase of our environmental footprint assessment are complete in 2009.

Current Environment Goals

Improve Gap Inc.'s Environmental Performance	Estimated Completion Date
Complete first phase of an environmental footprint assessment across select owned and operated locations	2009
Complete the implementation of our denim clean water program	2009
Have LEED® (Leadership in Energy and Environmental Design) accredited designers at Gap, BR, and Old Navy brands	2009
Develop quantifiable environmental goals based on data from our environmental footprint assessment	2010
Introduce new store-level waste management initiatives	2010
Introduce new supply chain waste management initiatives	2010

Completed Environment Goals

Improve Gap Inc.'s Environmental Performance	Completed Date
Achieve U.S. EPA Climate Leaders goal of reducing greenhouse gas emissions by 11% from 2003 to 2008	2008
Seek opportunities for energy creation	2008
Include sustainable/recycled materials in product packaging across our brands	2008

Note:

In our 2005/2006 Social Responsibility Report, we listed three environmental goals without a specific end date. Since then, we've continued to make progress on these initiatives and will report on their ongoing evolution via this website. These goals include: continuing to work with the Better Cotton Initiative; finding new ways to incorporate sustainable products into our brands; and continuing strong waste management efforts at headquarters.

Climate Leaders

Location: United States

Summary: We're taking action on climate change now. As participants in the U.S. Environmental Protection Agency's Climate Leaders program, we've met our goal to reduce greenhouse gas emissions.

We believe that the need to take action on climate change is pressing.

Together with assessing our environmental footprint, we're participating in the Environmental Protection Agency's (EPA's) Climate Leaders program to reduce energy use and greenhouse gas emissions.

Climate Leaders is an industry-government partnership that works with companies to develop climate change strategies. The program has a broad scope, requiring a high degree of transparency and data collection on greenhouse gas emissions.

We began our Climate Leaders work by completing a company-wide inventory of greenhouse gas emissions and setting goals to reduce them. We're pleased to report that we've reduced our greenhouse gas emissions by 20 percent from 2003 to 2008, exceeding our climate leaders goal of 11 percent over that five-year period.

We did this through a variety of initiatives that include introducing energy-efficient light bulbs at our distribution centers and improving energy performance at our headquarters and stores through better environmental management systems and behavior changes.

Going forward, the findings from our environmental footprint assessment will inform our actions and drive our goals for 2010 and beyond.

Changing lights at our DC's

Location: United States and Canada

Summary: Changing to energy-efficient light bulbs is saving Gap Inc. 26 million kilowatt-hours and more than \$2 million annually.

In a company of our size, making a change in something as ubiquitous as lighting can make a huge difference.

As part of our energy reduction work, we've replaced the high-bay metal halide lighting fixtures at our distribution centers with energy-efficient fluorescents — while maintaining, and even improving, lighting levels.

Since the program's inception in 2006, we've significantly reduced our annual energy consumption and costs. We've replaced more than 16,000 light bulbs, saving 26 million kilowatt-hours and more than \$2 million annually.

Solar energy

Location: Fresno, California

Summary: In support of cleaner fuel alternatives, we installed a one-megawatt solar power system at our West Coast distribution center campus in California.

As a leading retailer, how can we innovate around energy?

In 2008, we began looking to the sun.

We commissioned a one-megawatt solar power system at our West Coast distribution center campus in Fresno, California in 2008. It features a ground-mounted solar tracking system on a five-acre site. We expect the system to generate approximately 1.9 million kilowatt-hours annually from the sun — the equivalent of the electricity required to power approximately 350 homes for a year.

The Fresno solar power system helps reduce dependence on fossil fuel, which is a central aim of our energy conservation strategy. It's a great example of how we can capitalize on our corporate assets to expand renewable energy supplies.

The solar installation was completed through a Power Purchase Agreement in partnership with MMA Renewable Ventures, a subsidiary of Municipal Mortgage & Equity, LLC. It is part of Gap Inc.'s ongoing commitment to operate in ways that improve our company's long-term environmental sustainability.

Green product design

Location: San Francisco

Summary: Earth-friendly fashion won't happen overnight, but it will happen, says Banana Republic's VP for Design. She's excited by the possibilities — and determined to create clothes that are not just sustainable, but also chic and reasonably priced.

Alessandra Brunialti, vice-president for Design and Product Development at Banana Republic, has heard people in the fashion world say that if clothes can't be 100 percent earth-friendly, why bother? She takes a different view. Her mantra is "greener, one step at a time."

To her, every day brings a new opportunity to push further, experimenting with fabrics, dyes and processes, and working to strike the right balance between style, price and environmental impact. Ever the optimist, Brunialti is helping to set the vision for Gap Inc.'s progress in sustainable design.

"If we don't start small, we'll never get there," she says. "There's a chance to plant positive seeds that could potentially grow into bigger ideas. We're just at the beginning."

Born in Rome, Brunialti says she's long had an interest in how we use natural resources. She launched Banana Republic's Heritage Collection for women last summer, diving deep into research about emerging materials. The collection featured silk made from soy and also incorporated hemp and organic cotton.

It can be challenging, Brunialti notes, to maintain the same standards for style and price while pushing to become more sustainable. For instance, using a higher percentage of organic cotton led to a dulling of color, and a high-quality "eco-merino" wool proved to be too expensive.

"If we alienate the consumer with too high a price point, she'll lose interest," Brunialti says. It's a balancing act of trying to do the right thing and keeping things viable for our market. That's been my passion. I pushed the designers and said, 'Let's try to make this really accessible.'" Brunialti was excited to strike that balance with the Heritage Collection, which looks great and has been embraced by consumers. "It's not by any means an earthy, crunchy line," she says.

In the future, she hopes for innovation across Gap Inc.'s brands — such as Gap and Old Navy — noting that, together, they may be able to influence industry trends because of their large scale. Meanwhile, she and her team are exploring designs using recycled paper and hemp fiber. She hopes to create a committee to look at everything from design details to packaging, marketing and selling in stores.

"There are so many small choices, like where does a shell button come from?" she says. "Do we have a hang tag? Is it recycled paper? Every day is a new challenge. It's really fun and exciting. I feel proud to take something like this forward."

Sustainable store design

Location: United States

Summary: Our stores express who we are as a company. We're sharing ideas across Gap Inc. to ensure that the design of our future stores helps meet our sustainability goals.

Gap Inc. operates thousands of stores throughout the world under the brand names of Gap, Banana Republic and Old Navy, as well as Gap Outlet and Banana Republic Factory Stores. Every square inch of each store represents an opportunity to help our company become more sustainable.

Because of our scale, the design of our stores — together with their lighting, building materials, windows and even the plumbing — gives us the chance to make an enormous environmental impact.

Store design is part art, part science. It evokes a mood and draws on disciplines such as architecture and engineering. “For a person walking inside, you’re creating that first impression, that unique environment,” says Franky Mo, senior manager of Environmental Affairs for Gap Inc. Global Responsibility. “How welcoming is it? You think about the lighting and ventilation. You don’t want the store to be stuffy, too cold or too hot. You also think about visuals — what catches people’s attention?”

While the feel of an Old Navy store — along with the clothes it sells — will always differ from a Banana Republic store, we see enormous potential for our brands to share information to reach sustainability goals more quickly. In summer 2008, we began meetings with designers from across Gap Inc., and have since involved our architecture, construction and other groups as well.

These groups are exploring how to turn their enthusiasm and ideas into action. For example, our store designers are pursuing Leadership in Energy and Environmental Design (LEED®) accreditation, the nationally recognized standard for green building expertise. Our brands are conducting LEED® assessments of their current store designs to identify areas for improvement. Old Navy has already changed the lighting in its stores to be more energy efficient; it is currently developing a new store design template and aims to incorporate LEED® design principles.

“This is a priority for the company overall,” says Franky, who is a LEED® Accredited Professional himself. “From the structure of stores to their air-conditioning, paint, lighting and energy use, we can design something much more efficient. It brings together science, design thinking and artistic feel. That’s the beauty of it.”

Clean water program

Location: Worldwide

Summary: We're requiring special treatment of water used to launder Gap, Banana Republic, and Old Navy denim to ensure that it's clean and safe when it leaves the denim laundry.

What impact do jeans have on the environment? Much of the answer is in the manufacturing process.

Factories that make jeans for our brands launder them before shipping them on to distribution centers. The process of making denim requires a significant amount of chemicals, dyes and water. If the wastewater isn't properly treated, it pollutes rivers and streams and can harm local communities.

Gap Inc. is a member of Business for Social Responsibility's Sustainable Water Group, a partnership of companies committed to managing water use and wastewater discharge in global textile supply chains. In the late 1990's the group established clear guidelines for the presence of toxic chemicals, such as copper and mercury, in mills and laundries. It also established that factories should not produce any visible discharge of "floating solids or persistent foam" or send sewage trickling into open bodies of water.

In 2004, we established a Clean Water Program to monitor denim laundries' wastewater discharge and require them to clean up wastewater practices. We measure progress against strict industry guidelines, which include overall water temperature, color gradations and chemical makeup.

CH2M Hill, an independent environmental consultancy, has reviewed data from all the 100 or so approved denim laundries producing Gap Inc. branded denim. We're using the findings of that analysis to identify non-compliant denim laundries and work with them to develop corrective action plans.

In December 2008, we introduced a new denim laundry policy to our suppliers. It requires that all Gap Inc. denim laundries meet, or show their intent to meet, our wastewater quality guidelines. The policy includes two sets of guidelines: one set for denim laundries that are new to the program to help bring them into compliance, and a second set for those with experience participating in our program.

Mills sustainability

Location: Worldwide

Summary: Fabric mills have an impact on the environment. We're working to improve environmental practices at the mills that make the fabric for our clothes.

Over the past few years, we've made significant progress in workers' rights, health and safety, and the environment. Most of our work has focused on the parts of our supply chain in which we have the most control — namely, the cut-and-sew factories with which Gap Inc. contracts.

Our next challenge is to move deeper into the supply chain, to the mills that convert raw materials such as cotton into the fabric used in our clothes. Our aim is to help these mills improve their environmental practices — from developing an environmental management system to using environmentally-friendly dyes.

We believe that collaboration is the best route to such change.

In 2007, we helped form the Apparel, Mills and Sundries working group, a forum of ten leading apparel and retail companies that work in partnership with their suppliers. The group is committed to moving away from top-down, "pass-fail" auditing toward a more collaborative, transparent approach that emphasizes mutual gains. In other words, some of our work involves encouraging mills to see how much they, too, stand to benefit from implementing more sustainable practices.

The working group has developed a set of guiding principles, tools and processes that suppliers must use to improve their operations. It has asked an initial pool of suppliers to sign on to its principles and complete an external assessment and remediation plan for at least 25 or 25 percent (whichever is higher) of their approved third-party providers by year end 2009.

Finally, the working group has called on this first round of suppliers to create a strategic plan for developing their own management systems — a fundamental step as suppliers assume responsibility for overseeing and improving their practices.

Learn more at <http://www.bsr.org/membership/working-groups/apparel-textiles.cfm>

Environmental Council

Location: United States

Summary: Our Environmental Council brings together executives and managers from across Gap Inc. who pool their talent and leadership skills to create positive environmental change for the company.

In 2008, Gap Inc. created an Environmental Council of senior executives and mid-level managers across the company. Members include representatives from Gap, Banana Republic and Old Navy brands as well as company experts in the functional areas of Real Estate, Corporate Operations, Strategic Sourcing, Logistics, Public Affairs, Trade Compliance, Marketing, Fabric Research and Development, Design, Merchandising, and Global Responsibility.

Working as a sort of think tank, the council's mission is to improve how Gap Inc. uses resources to reduce our environmental impact with regard to our ECO focus: Energy; Cotton/sustainable design; Output and waste.

The Environmental Council meets quarterly to:

Identify and prioritize opportunities within the brands to support ECO objectives.

Engage and influence senior leadership, as appropriate, to make decisions and execute on ECO priorities.

Share best practices across brands and functions, and inform and involve employees on ECO priorities and activities.

Participate on committees that tackle such key issues as sustainable product design and employee education.

Business for Innovative Climate and Energy Policy (BICEP)

Location: United States

Summary: When it comes to addressing climate change, policy matters. So does collaboration. In 2009, we joined BICEP, a coalition that focuses on passing meaningful legislation on energy and climate change.

We know that policy is a critical step in advancing the climate change agenda. We also know that we'll make more progress in less time if we join forces with others to address climate change issues.

In 2009, we joined the Business for Innovative Climate and Energy Policy (BICEP) coalition in partnership with brands such as Nike, Levi Strauss, Starbucks, Sun, and eBay along with Ceres — a national network of investors, environmental organizations and other groups focused on sustainability.

BICEP members believe that climate change will affect all sectors of the economy, and that diverse business perspectives are vital to the full spectrum of viewpoints needed to solve America's climate and energy challenges. The goal of the coalition is to work directly with key allies in the business community — and with members of Congress — to pass meaningful energy and climate change legislation that's consistent with BICEP's core principles.

To learn more, visit the BICEP site at www.ceres.org/bicep.

BICEP Members/2009

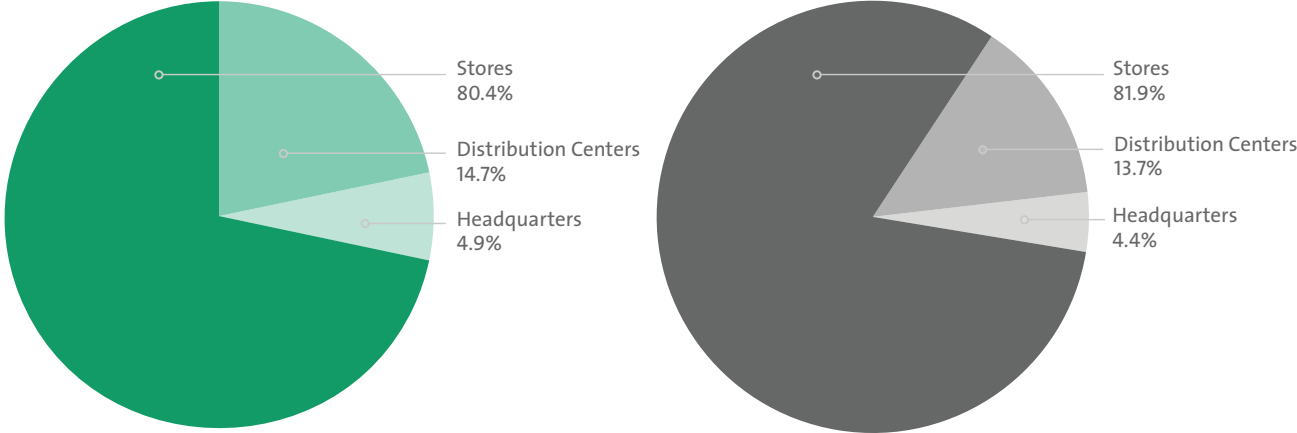
- Aspen Skiing Company
- Clif Bar & Company
- eBay
- Gap Inc.
- Jones Lang LaSalle
- Levi Strauss & Co.
- Nike
- The North Face
- Seventh Generation
- Starbucks
- Sun Microsystems
- Symantec
- Timberland

Goals and Progress

Environment

Data

2007-2008 Energy Consumption by Location



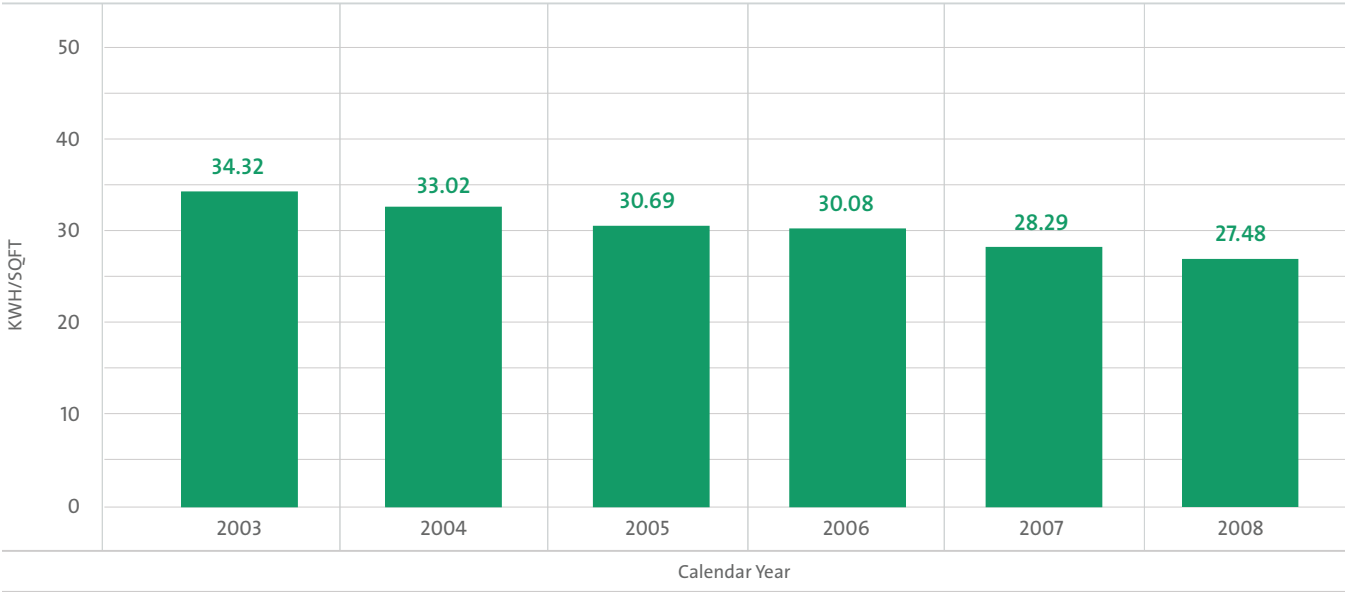
■ Calendar Year 2007
■ Calendar Year 2008

Note:
Data represents calendar year.

Since 2003, we've participated in the U.S. Environmental Protection Agency's Climate Leaders program to reduce energy use and greenhouse gas emissions.

In order to meet the broad scope and high degree of transparency required by the Climate Leaders program, we collect and report on greenhouse gas emissions data for our store operations. We're pleased to report that we've reduced our greenhouse gas emissions by 20 percent from 2003 to 2008, exceeding our climate leaders goal of 11 percent over that five-year period.

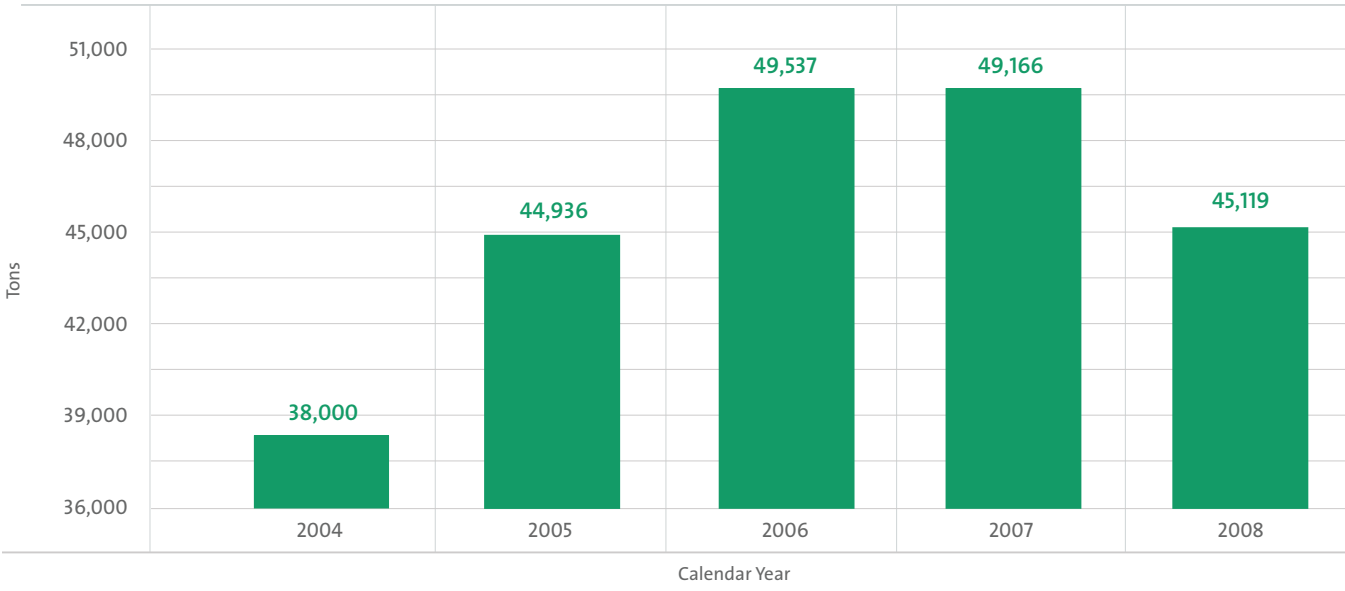
2003-2008 Average U.S. Store Energy Consumption



Note:
Historical data has been restated to represent a new methodology used by our third-party data provider. Data represents calendar year.

Given our size, everyday activities such as printing documents or shipping garments in plastic bags can have a significant environmental impact. By taking a close look at our practices, we're finding new ways to reduce waste and use our natural resources wisely.

2004-2008 Waste Recycling in North American Corporate offices, Distribution Centers and Stores



Note:
We implemented a single stream recycling program for our headquarters offices in 2007, so we now report an aggregate number instead of separate figures for paper, cardboard and container recycling. In 2008, recycling decreased for the best of reasons - an overall reduction in waste. Our reduced use of inbound corrugate to pack and ship product to stores contributed to this decrease. Data represents calendar year.

In 2004, we established a Clean Water Program to monitor denim laundries’ wastewater discharge and require them to clean up wastewater practices. We measure progress against strict industry guidelines, which include overall water temperature, color gradations and chemical makeup.

2004-2008 Denim Laundry Wastewater Program

Calendar Year	# of Denim Laundries	Pass	Fail
2004	18	14	4
2005	41	22	19
2006	90	44	46
2007	110	69	41
2008	90	71	19

Note:
 We completed the Clean Water Program implementation in 2008 to include 100 percent of the denim laundry facilities that produce Gap Inc. branded denim. Any new denim laundry producing Gap Inc. branded denim will be migrated to this program. Data represents calendar year.

Goals and Progress

Employees Full Section

When asked where they work, more than 130,000 people around the world can say, “Gap Inc.” We want them to say it with pride. It’s our intent to create a workplace culture that encourages every individual to: “Wear your passion.”

Every week, 100,000 Gap Inc. employees interact with more than 14 million customers in our stores. And behind the scenes, thousands of employees are committed to making those customer interactions the best possible. We see each of these touch points as an opportunity to strengthen our relationships with our customers and each other.

Our employees have been instrumental in helping the company come through two challenging years.

As we entered 2007, we were at a crossroads. Business results were down. We knew we needed to reconnect with our customers. As we sought to turn our business around, restructuring the organization — with a focus on empowering our brands and divisions to make the best decisions to support their business — became a leading priority. We also tried to simplify our work across the company and manage costs.

Throughout this time, we attempted to reach out to our employees with frequent and candid communications. Managers were encouraged to keep employees updated on our progress as we clarified roles and responsibilities.

Good communication is a two-way street. Gap Inc. employees have an important voice; they’re the source of most of the company’s best ideas. To that end, in 2008, we reached out to 100,000 of our employees worldwide with a survey, asking them to share their thoughts on their work environment.

The survey had a respectable 68 percent response rate, which helped us get a pulse on what our employees think about working here. Overall, 77 percent of respondents considered Gap Inc. to be “a great place to work,” compared to the retail norm of 61 percent – and a 9 percent increase over a similar survey done in 2007. In addition, nearly 70 percent said that, overall, they were satisfied with their jobs, 7 percent above the retail norm – and a 5 percent increase over the 2007 survey.

The survey also confirmed that we still had some work to do, particularly in the areas of career growth and development opportunities for our employees. Sixty-seven percent expressed a favorable view of our career development and professional growth practices, but we’d like to see this number increase. This continues to be a priority.

In the last several years, we've worked to decentralize Gap Inc. As a result, business leaders now have the power to make decisions that are right for their organizations, while still aligned with our company values and overall business priorities.

We've increased the focus on our stores and customers and introduced tighter cost-management controls. We've strived to make sure that we have the right leaders in the right places. In many cases, we've reduced management layers and increased spans of control to allow faster decision-making. We've also increased our emphasis on leadership accountability and communicated more often with our employees to make sure they are clear on company priorities.

As our business model has evolved, so has our company culture.

Much of what shaped the company when it was founded in 1969 remains deep in our DNA today: integrity, community involvement and, simply put, "doing what's right."

But over the years we've learned that, in order to be our best, our culture must also truly focus on our customers, be results-driven, and inspire creativity — and accountability — at every level.

The vision for our culture can be expressed in a few simple words that drive our work:

Think: customers first.

Inspire: creativity.

Do: what's right.

Deliver: results.

Inside the company, we sum it up in three words:

"Wear your passion."

Respecting diversity is fundamental. Celebrating it takes us all further – together.

Diversity is the rich variety reflected in our work environment and marketplace – including ethnicity, race, gender, age, sexual orientation, culture and global experiences. Encouraging diversity in our work, and embracing different styles, ideas and people, creates an atmosphere of inclusion and appreciation. It encourages innovation. And it supports a more gratifying work experience for Gap Inc. employees.

In the last two years, our employees' appreciation of how we approach diversity at work has increased. Between 2006 and 2008, employee satisfaction in this area improved by 15 percent. Employees also said we're making progress in encouraging an environment of openness and trust, where individual differences are valued and people are treated with respect at all levels. In the next two years, we will continue focusing on these areas.

Gap Inc.'s cultural diversity is recognized outside the company, too.

We've been on the CRO (Corporate Responsibility Officer) Magazine's 100 Best Corporate Citizens List for the last four years. In 2008, Gap Inc. earned a perfect score for the fourth consecutive year in the Human Rights Campaign's annual Corporate Equality Index, which ranks companies according to how they treat gay, bisexual and transgender employees.

In 2007, our company earned a New Freedom Initiative Award for helping to develop a model store for disabled retail trainees. This recognition is awarded by the U.S. Department of Labor to honor organizations that are finding creative ways to integrate people with disabilities into American culture, including the workplace.

You can read more about our approach to diversity and inclusion by visiting the Careers section on gapinc.com.

A job makes a living. A career can make a life.

We take seriously the feedback from employees that Gap Inc. has room to improve in the area of career development. In our 2008 employee opinion survey, 67 percent expressed a favorable view of our career development and professional growth practices. We want to see that number increase.

One of our priorities is to focus career development on the individual and provide a variety of experiences over time. We look at this as “staying in one place, and going somewhere new.” When employees get opportunities to pursue their passions without leaving, the company benefits, too.

We also work to provide career development opportunities in other ways. In 2008, we launched a skills-based volunteering program, which encourages employees to use their business and retail skills to benefit nonprofit organizations. This provides a valuable community service, while employees gain new skills and experiences.

In 2007, we introduced Merchant Youniversity, a series of classes “for merchants, by merchants.” Gap Inc. merchants designed the program to address the skill gaps in the merchandising organization – a problem that we believe may have contributed to high turnover rates. We think the program has proven itself by helping to stabilize our merchant population. In 2008, more than 320 employees at headquarters locations received training under this program, and overall classroom results showed a satisfaction rating of more than 97 percent. We have since expanded the program to include class participants from other areas, including design, inventory management and production.

We’re also seeing good results from Leading Businesses@Gap. This four-day executive business simulation experience covers such topics as consumer insights, business strategy, risk management, revenue generation, and strategic and tactical decision-making. Participants also gain experience in personal leadership, peak performance, innovation and team leadership. Leaders who have attended this training tend to stay with the company longer, perform better and receive a larger scope of responsibility than those who did not participate.

We offer courses at many levels of the organization, including Leading Leaders@Gap – a six-month development program that helps first-time leaders of managers inspire people at all levels to achieve exceptional results. The program involves leadership skills assessments, classroom learning and peer-to-peer training.

You can learn more about careers at Gap Inc. by visiting the Careers section on gapinc.com.

GOALS AND PROGRESS | Employees | Engaging employees

We know that employees who are engaged in the work they do are more committed to the company's success. They work harder to meet or exceed goals, and are more likely to make a greater, longer-term contribution.

In the last two years, we've worked hard to address the challenge of keeping our talent in an increasingly competitive industry. We do so by engaging employees in both their everyday work and helping them see how their contributions support the long-term success of the company. It's a challenge, especially when business results aren't as strong as we would like.

We seek to connect with, and support, our employees in many ways — communicating more openly and honestly, trying to show appreciation for a job well done, providing comprehensive benefits and valued programs, and stepping in to help during times of crisis.

Reducing voluntary turnover continues to be a priority for us, and we know we have more work to do. Still, in the past year we've seen lower turnover in our field teams, as well as in our designer and merchant groups and at the executive level. On average, turnover in most of these product groups declined by 15-20 percent. Turnover at the vice president and above level decreased by 32 percent between 2007 and 2008.

Based on employees' feedback, we have created several new programs across the company. For instance, in 2008, we launched an initiative for our distribution center employees called "How We Work." This program provides a clear and simple framework for Gap Inc.'s commitment to employees and how we work together. It includes maintaining a safe and healthy workplace, promoting fair treatment, paying competitive wages and benefits, and reinforcing our pledge to foster an active, engaged partnership.

In 2008, we launched an initiative to promote better understanding between the employees in our headquarters and our stores. This Work-in-Stores Program enables employees at our corporate headquarters to gain experience working in stores at one of our brands. The result: customers and store management benefit from becoming more visible to corporate employees, while corporate employees gain valuable hands-on experience and insight into store operations.

In our Outlet division, we've piloted a program for headquarters employees who want a more flexible work schedule. Results-Oriented Work Environment (ROWE) gives employees the opportunity to work whenever and wherever they want — as long as their work gets done and they meet business needs. We believe this flexibility will increase our employees' commitment to their jobs — and the company — and lead to increased productivity and business results. Based on results of the initial rollout, we expanded to all Outlet headquarters employees in 2009.

We believe that providing access to health care benefits is vital to having, and keeping, satisfied employees.

We offer competitive health care benefits, including medical, dental and vision, to all full-time employees in the U.S. We also offer National Health Access to full or part-time employees. This program offers access to a variety of healthcare options, ranging from discounts on medical and health costs to major medical insurance.

Internationally, we align employee needs with the health care and wellness options available in each country to ensure we're providing a comprehensive benefits package.

In 2006, we conducted an extensive review of our health care programs to find the right balance between employee benefits and managing our expenses.

As a result, in 2007 we introduced Health Reimbursement Accounts (HRAs), which are designed to encourage our employees to take an active role in their health and wellness. The goal: to emphasize wellness and catch any problems early on, while still providing protection in the event of an illness or accident. HRA accounts are funded by the company, with employees having the ability to roll over unused account dollars from year to year.

As a company, we believe in the equality of all people, and we provide equal benefits for our gay and lesbian employees. We also provide comprehensive health and wellness benefits to both same-sex and opposite-sex domestic partners.

When emergencies and natural disasters strike, we're there to support our employees.

In the last two years, the company has provided nearly \$600,000 in disaster relief support to employees affected by natural disasters. These included California wildfires, the Tennessee tornadoes, flooding in Wisconsin and Iowa, ice storms in New England, and Hurricanes Dolly and Eduardo.

Our assistance included:

- Continued pay
- Allowances for severe home damage, clothing and food
- Temporary housing and cash for employees facing emergencies or crises
- Access to our Paid Time Off (PTO) Donation Fund for employees who had exhausted their PTO, but needed to take time off due to a natural disaster, loss of residence or medical emergency

During tough economic times, we provide financial education opportunities and resources to help employees navigate the downturn. For instance, in 2008, we offered additional online financial seminars and access to financial experts at no cost to employees.

When disasters strike communities in which our employees live and work, we step up to provide support. For instance, in 2008, Gap Foundation gave \$50,000 in grants to two nonprofit organizations that supported victims of the Tennessee tornadoes:

- \$40,000 to Gallatin CARES, a nonprofit that provides emergency assistance to individuals and families who find themselves unable to meet basic needs
- \$10,000 to the Macon County Education Foundation, which established a special fund to support young people whose plans to continue their education after high school had been threatened due to their families' financial pressures after the tornadoes

We value the people who work at Gap Inc. – and we want to be sure they know it.

Our peer-based, online recognition program, Applause, continues to expand since its 2005 launch. In 2008 alone, employees in our stores, distribution centers and headquarters locations around the world awarded each other with more than 200,000 personalized cards.

At the same time, our individual businesses manage their own recognition programs. These reflect the unique personalities of the brands, while recognizing store and headquarters employees for performance aligned with business goals.

For instance, in 2008, Gap brand’s Bold Ideas initiative recognized Gap store employees who came up with ingenious cost-saving ideas.

Our Outlet division rewards store associates with “Outlet Rewards Points” for helping achieve business goals. Associates receive points when they “do more, sell more and be more” for our customers and their stores. The points are redeemable for merchandise awards.

We also recognize employees for their volunteer work through two programs:

- Community Corps provides annual trips for groups of employees to build houses in partnership with Habitat for Humanity
- Our annual Founders’ Award provides grants of up to \$50,000, and as much as 80 hours of paid time off, to employees who are exceptionally committed to working in the community

All of our goals focus on creating a great place to work and continually improving our employees’ work experience. We’ll measure these goals by what our employees tell us in our annual Employee Opinion Survey and other ongoing employee surveys.

Current Employee Goals

Provide a great place to work through open dialogue and opportunities for vibrant careers	Estimated Completion Date
Maintain current employee commitment level of 70%	2010
Integrate our new cultural cornerstones into employees' everyday work	2010
Maintain an open, inclusive environment through transparent communications and respect, especially during difficult economic times	Ongoing

Completed Employee Goals

Create a positive work experience for our employees	Completed Date
We’ve increased the vice president and above positions filled by internal candidates since 2006, with 62% filled internally in 2008.	2008
In 2008, we had a 13% increase in the number of employees who said they are informed on a timely basis about major developments and decisions that affect them as compared to the previous year.	2008
Between 2007 and 2008, employee engagement increased 5%, to 70%.	2008
We’ve introduced new learning and development programs including skills-based volunteerism and Merchant Youniversity to enhance our employee skills.	2008
We’ve introduced Health Reimbursement Account plans (HRAs) that help our employees play larger roles in managing their own health care, and we continue to introduce more wellness programs.	2007

Venus: Better together

Location: San Francisco, California

Summary: You may not see Venus Finley's great-great grandfather alongside her in her role with our Loss Prevention group. But he's there.

In the late 1800s, Venus Finley's great-great grandfather walked into a field in Chicago and built a house. It's still standing there in the inner city.

"It's very humbling to recall this — that my family came from nothing, and built our own environment," she says.

Venus, Loss Prevention director for Gap brand's Western Zone and Canada, is African American and draws on her family history, including her race, to provide her life and decisions with the right context.

"That's what drives me — the ability to recognize where I came from and how a strong work ethic was an important part of it."

During the 1970s, Venus moved to California by herself at 18 and began her retail career with Mervyns, where she spent 28 years. "They gave me a lot of opportunities in terms of my growth and leadership."

In 2002, she joined Gap Inc., where she's made a strong impression on her colleagues. From the start, she joined the company's African American Networking Group (AANG) because she thought it would be a great opportunity to meet people.

"It also turned out to be a great service opportunity," she says of the group. "If we want Gap Inc. to represent the communities in which we live, it starts with who works for us and how they fit in."

"My role with AANG has been one of inclusion," she adds. "It's about helping people fit in and maneuver through this company."

Away from work, Venus operates with a similar sense of humility and appreciation. For years, she's volunteered her time and money to support a church-operated school that educates inner city youth in Oakland, Calif.

"This," she says of her support for the school, "is my obligation to society."

Venus, who took in a family of four displaced by Hurricane Katrina a few years ago, continues to assess life through a unique lens.

"The way I see things, there are a lot of people to disappoint if I don't succeed. And I'm not talking about my colleagues. I'm talking about my ancestors, to whom I hold myself most accountable."

Keith: More than a job

Location: San Francisco, California

Summary: During his 13 years at Old Navy, Keith Herbert has enjoyed being an “integral part” of a growing brand.

Nearly 13 years ago, Keith Herbert walked into an Old Navy store. He was hooked.

“It was like nothing I’d ever seen before,” Keith says. “I loved the energy, I loved the people, I loved the T-shirts.”

Keith joined the company in 1996 as a general manager for Old Navy in St. Louis, Mo. At the time, the business was gaining momentum; he saw the opportunity to build a career here.

Along the way, he’s helped the brand evolve from fewer than 50 stores to a burgeoning fleet of more than 1,000. “It was always a brand I admired and respected.”

During his career with Gap Inc., he’s relocated nine times, steadily progressing through Old Navy’s stores and headquarters organizations.

After two years as general manager, he assumed the role of new store coordinator, traveling nearly 40 weeks a year across the country and opening stores “from the ground up.” He helped open more than 120 stores, including Old Navy’s San Francisco Flagship.

Since then, he’s crossed the country to take on new positions and promotions – including regional manager in Buffalo, New York; district manager in St. Louis; regional director in Indiana/Michigan and Chicago; zone vice president of Old Navy’s Central and Canada zone; and senior director of Customer Service and Labor Management for Old Navy’s headquarters in San Francisco.

Long ago, Keith decided that he’d like to stay at Gap Inc. But he also wanted to take on new roles in the company. He says he’s happy to work in an environment that’s supported a career of growth and movement.

In his current role as vice president of Operations, Keith acts as a liaison between Old Navy’s headquarters and store teams. He’s enjoyed being an “integral part” of a growing brand. The best part, he says, is seeing the people he first began working with continue to grow their careers.

“It’s the people and the culture that keep me coming back every day,” he says. “It’s walking into Old Navy and capturing a feeling that I’m truly at home — whether in St. Louis, San Francisco or Buffalo.”

Dennis: Home sweet home

Location: Macon County, Tennessee

Summary: After surviving a tornado, Dennis Crook rebuilt his home with help from Gap Inc.'s Disaster Relief Fund.

When a powerful tornado hit Macon County, Tenn., Dennis Crook reached for what mattered most: his 15-year-old son Douglas.

"During this time, your survival instincts kick in and you become a stronger person than you realize," Dennis says, recalling the Feb. 5, 2008 twister. "My only concern was keeping my son alive."

Dennis, a merchandise handler at Gap Inc.'s Southern Distribution Center in Gallatin, Tenn., pulled his son to the ground and lay on top of him to shield him from the impending tornado.

Dennis's home was destroyed, along with his car and most of his personal possessions. He suffered minor back injuries while protecting his son.

To help rebuild his home, Dennis received disaster relief funds from Gap Inc. He also received assistance from Human Resources, management and some of his associates, who, following the storm, helped clean up the damaged home.

"The money I received from Gap Inc. was very helpful in setting my home up," Dennis says. "The HR team and management were tremendous in helping my family know that I was OK and supporting anything I needed."

Erika: Bold ideas

Location: Princeton, New Jersey

Summary: Erika Kiesling’s “bold idea” reduced waste and saved Gap Inc. thousands of dollars in annualized costs.

Erika Kiesling had a “bold idea.”

As a general manager of Gap store #641 in Princeton, N.J., she noticed the similarities between the “charge/send” boxes and the small accessory boxes that her store receives in weekly stock shipments.

Her idea: Why not just remove the labels from the small accessory boxes and reuse them for charge/send boxes – instead of ordering new ones?

“I thought this would save my store and the company money,” Erika says. “And it makes me feel good about recycling and reusing the accessory boxes in an environmentally-conscious way. I knew if even half of the Gap North America fleet would join in doing this, we could save trees, reduce waste, and save the company thousands of dollars at the same time.”

Erika’s idea — eliminating charge/send boxes from the company’s purchase order system – saved Gap Inc. approximately \$100,000 in annualized costs for charge/send supplies. It also supports Gap Inc.’s broader strategy to reduce output and waste.

Erika is a winner of Gap brand’s Bold Ideas initiative, a 2008 program that recognized Gap store employees whose ideas were implemented in fiscal 2008 and reduced expenses for the brand.

Her suggestion was among more than 400 cost-savings proposals submitted by U.S. and Canada Gap store employees. It was implemented across the Gap North America store fleet in 2008.

Erika, who has been with Gap for nearly 15 years, says she feels like she has “grown up” with the brand, so her passion is deep-rooted. In recognition of her idea, Erika received a check for a percentage of the cost-savings.

“It delights me to know that my thoughts and ideas are valued by my company. I think this collaborative approach to business between the stores and headquarters will allow us to run our business smarter and more effectively.”

Jorge & John: Greener sourcing and packaging

Location: San Francisco, California

Summary: Jorge Perez-Olmo and John Hodges are changing the way we think about sourcing, packaging and shipping — reducing our costs and environmental impact at the same time.

It started out simply — by taking a closer look at the price ticket attached to a T-shirt and asking a few questions:

What's the paper made from? Can we use recycled paper? If so, how would we do that? And how would we maintain the same quality?

To Jorge Perez-Olmo and John Hodges, of Gap's Global Sourcing & Packaging team, this kind of thinking is all in a day's work. This team makes smart business decisions with the planet and its limited resources in mind. For Gap brand, the two manage all global garment packaging, shopping bags, gift boxes, gift cards and direct mail.

Jorge and John enabled Gap to move to 100 percent post-consumer recycled price tags in the Spring 2008 season. Previously, Gap had produced about 1.5 billion price tags — the equivalent of 10 tons of paper — each year.

That effort sent a strong environmental message to the apparel industry and inspired Gap Inc.'s largest brand, Old Navy, to also introduce recycled price tickets in 2009.

"One of the guiding principles from our recycled paper project," John says, "is that, if you understand your business, you can make change."

In November, 2007, the two introduced Gap's first gift card to be made of recycled plastic. That prompted other Gap Inc. brands, Banana Republic and Old Navy, to offer similar cards in 2008.

With all three brands joining forces, Jorge and John — along with Jason Green, in Strategic Sourcing — were able to negotiate a volume discount from the supplier, which meant considerable cost-savings.

The pair have vowed to evaluate everything they "touch and feel" through a sustainability lens.

For the past year, the glossy inserts that Gap's credit card customers receive with their statements have been certified by the Forest Stewardship Council (FSC). This certifies that the paper comes from sustainably managed forests. We've also used FSC-certified paper in all direct mail pieces since Spring 2008 and in our in-store signage for Gap's credit card and Gap Direct box stuffers — barcoded coupons that come with shipping boxes.

For online sales and garment factory shipments, Gap also now offers clear plastic shipping bags that are biodegradable — all cost neutral.

Jorge and John are also rethinking shipping and transit routes to lighten their team's carbon footprint. "Our sustainability work," Jorge says, "is about a combination of expense savings and doing what's right."

John says their work has helped change the mindset of many who design or produce goods at Gap. They've opened eyes to the idea that sustainability can be part of the discussion without sacrificing quality or creativity.

"Given Gap's size and iconic status within the retail landscape," Jorge says, "we're lucky to find ourselves in a position to effect change on a very large scale. And that's what we seek to do."

Kristina: “Everyday life” diversity

Location: San Francisco, California

Summary: Kristina Militante knows that diversity is not just a buzzword at Gap Inc.; “it’s everyday life.” As president of Gay Employees, Allies and Resources (GEAR), she works to ensure “a safe, inclusive environment for all employees.”

Kristina Militante serves two important roles at Gap Inc. She’s senior director, IT, for the Outlet division, and she’s president of Gay Employees, Allies and Resources (GEAR) — a company employee resource group.

Kristina’s been actively involved in lesbian, gay, bisexual and transgender (LGBT) issues for most of her 13 years at Gap Inc., including GEAR, which started two years ago.

Now, as GEAR’s president, she says she’s working with “a dream team” — including the group’s executive sponsor, steering committee, board and members — to help encourage equal treatment.

“Gap Inc. empowers employees to be true to themselves and embrace one another,” she says. “That is what sets us apart from other companies: diversity is everyday life.”

GEAR started as a small group for LGBT employees. “But we came to realize that allies are just as important, so we changed our name to Gay Employees, Allies and Resources. GEAR is about creating a safe and inclusive environment for all employees.”

With nearly 300 members across Gap Inc., GEAR has led the charge in celebrating LGBT people and creating better understanding of LGBT issues — both within the group and across the entire employee community. In the last year, the board:

- Organized speaker events, cross-company mixers and a GEAR road show
- Raised money for LGBT causes
- Expanded membership to stores via social media
- Provided input and feedback to executives on LGBT issues within the company
- Provided GEAR, Employee Resource Group and Diversity and Inclusion information to all 3,000 U.S. stores

These efforts helped Gap Inc. achieve a 100 percent rating for the fourth consecutive year in the Human Rights Campaign Corporate Equality Index.

The group’s progress will provide the foundation for other employee resource groups to be successful, Kristina says.

“Last year was about stability. This year is about leading change. We have lots of opportunity to work with the Diversity Council and leadership teams to clarify processes and spearhead policy change to support LGBT members.”

“GEAR has become a family that I constantly draw inspiration and guidance from. Being part of GEAR has enabled me to grow as a leader, mentor others, and bring people together to make positive changes come to life.”

Peggy: Assistance in distress

Location: Williamsburg, Iowa

Summary: After her mobile home was flooded, Peggy Tuesburg received assistance from Gap Inc. for herself and her family.

In June 2008, the Mississippi River overflowed, breaking through levees, flooding thousands of acres of farmland, and forcing evacuations in Iowa, Illinois, Missouri and Wisconsin. Nearly 30 Gap Inc. employees were either evacuated or saw their homes damaged by the floods.

One of them was Peggy Tuesburg, an associate at Old Navy #6412 in Williamsburg, Iowa. Her mobile home was flooded, forcing her and her two children, ages seven and 15, to evacuate. They lost nearly all of their possessions, and their home of seven years was unlivable due to hazardous conditions.

Gap Inc. provided Peggy, and other employees affected by the flood, with a variety of assistance, including allowances for temporary housing, food and clothing. The allowances helped her pay the deposit and rent on a new apartment and replace some of her children's clothing and toys.

Her Old Navy store also hosted a bake sale to raise funds for Peggy and her family. Their sweet proceeds added \$400 to the support she received from Gap Inc. and the Federal Emergency Management Agency (FEMA).

"It helped out a lot," she says. "I've never known a company to do anything like this. I really appreciated it."

Regina: The view from Tokyo

Location: Tokyo, Japan

Summary: For Regina Low, the cachet of an international fashion career is the result of focused work, great mentors, and a mind that's open to the world.

Regina Low always knew she wanted to live and work internationally.

From her first job at Gap Inc., in Singapore in 1996, to her current position in Tokyo as senior manager, Finance, she's been able to create the kind of career she had in mind.

She got her first overseas job in China with another U.S.-based multinational corporation. Later, after being with Gap International Sourcing in Singapore for almost nine years, she accepted a position at the San Francisco headquarters.

Following two years of learning the ins and outs of the corporate office, she was ready to get some experience in the retail division. So she explored possibilities with our colleagues in Japan, and soon landed a financial planning and analysis position in Tokyo, where she has been since November 2007.

Along the way, Regina has gained valuable insights about being part of a global company.

Asked what is special about the market in Japan, she answers, "It's unique. Consumers are more discerning than they are elsewhere, and everyone takes personal pride in the company's success." She says that working there has brought her closer to the business and to better understanding what drives it.

What's the secret to a successful international career? "Being open-minded and embracing differences," Regina says. "Language and culture are challenges, but it's important to learn as much as you can.

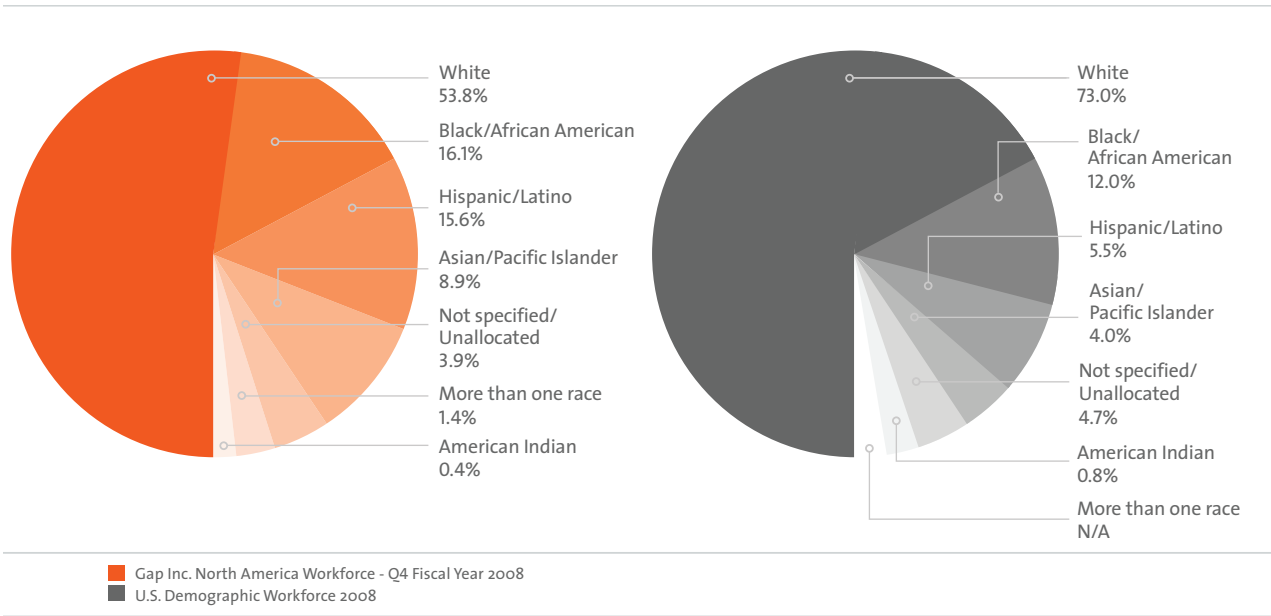
"Being exposed to different cultures has enriched both my personal and professional growth. It has enabled me to be more aware and better appreciate the individuality in everyone and to take an open minded approach when dealing with issues at the workplace or at home. In the course of my career with Gap, I have met many wonderful people through my work who mentored me and became my friends."

Goals and Progress

Employees Data

The following chart shows the ethnic make-up of Gap Inc.'s North America workforce in relation to U.S. 2000 Census Data.

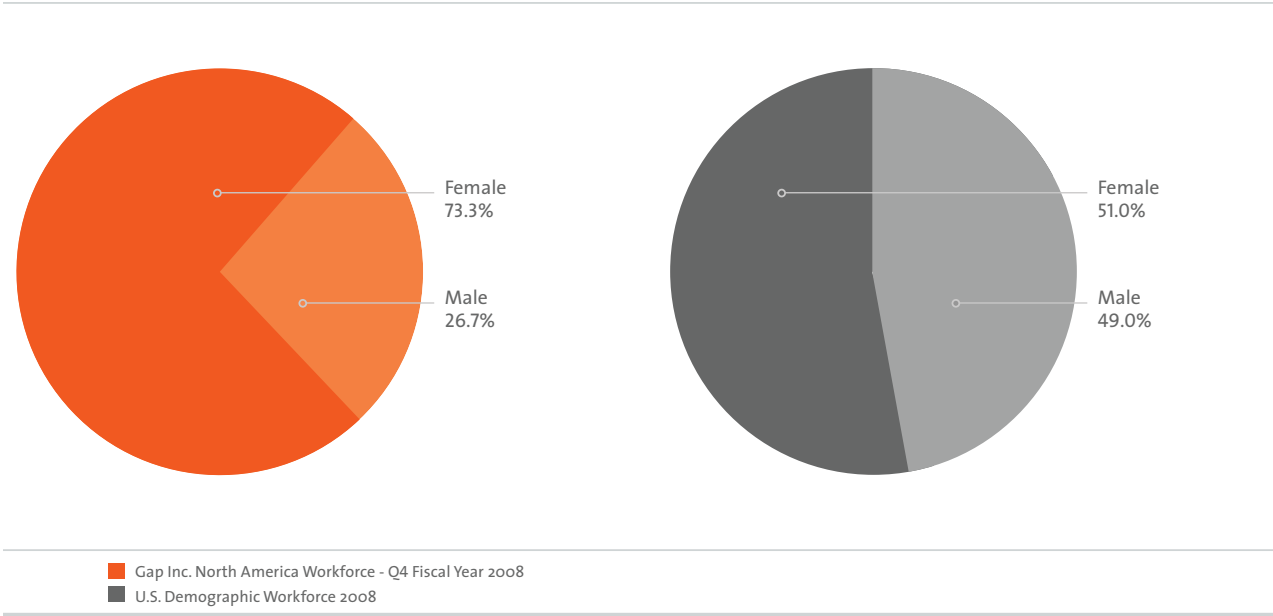
2008 North American Ethnic Demographics



Note: Includes U.S. and Canada employees.

The following chart shows the gender make-up of Gap Inc.'s North America workforce in relation to U.S. 2000 Census Data.

2008 North American Gender Demographics



Note: Includes U.S. and Canada employees.

The following chart provides an overview of Health & Wellness Benefits offered by Gap Inc. We want our health benefits to do more than just take care of our employees when they're sick. Our HRA plans are designed as a total health and wellness solution, with tools and resources to help employees improve their long-term health and manage health care spending.

2008 Health & Wellness Benefits

Program Description and Coverage	Eligibility	Highlights
<p>Health Benefits</p> <ul style="list-style-type: none"> • Medical • Dental • Vision • Health care and dependent care Flexible Spending Accounts • Life, disability, accidental death and dismemberment and business travel accident insurance <p>Wellness Benefits</p> <ul style="list-style-type: none"> • 24/7 NurseLine service • Health risk assessments • Cancer care support • Employee Assistance Program (EAP) Life Resources 	<p>Available to all employees classified as full-time, effective on date of hire or change in status.</p>	<ul style="list-style-type: none"> • Gap Inc. offers an innovative type of health plan called Health Reimbursement Account (HRA), which includes free basic in-network preventive care, health reimbursement accounts funded by the company and the ability to roll over unused HRA account dollars from year to year. • 86% of benefit-eligible employees participate in Gap Inc. medical plans. • Gap Inc. also extends coverage to same- and opposite-sex domestic partners. • In 2008, Gap Inc. paid approximately 77% of the costs of health care coverage for eligible U.S. employees and 77% of costs for eligible U.S. employees' dependents, including their same-sex domestic companions. • In 2007, Gap Inc. paid approximately 80% of the costs of health care coverage for eligible U.S. employees and 80% of costs for eligible U.S. employees' dependents, including their same-sex domestic companions.
<p>National Health Access</p>	<p>Available to all employees and to same-sex spouses and opposite-sex domestic partners and their dependents.</p>	<p>Gap Inc. is proud to offer all employees access to health care.</p>

Note:

The benefits data in the chart applies to U.S. only, unless otherwise noted. Internationally, we align employee needs with the health care and wellness options available in each country to ensure we're providing a comprehensive benefits package for our employees. Employees who are classified as full-time are eligible for benefits.

The following chart provides an overview of Financial Health Benefits offered by Gap Inc. These benefits play an important role in attracting, rewarding and retaining talented people who want to build long-term careers in our company.

2008 Financial Health Benefits

Program Description and Coverage	Eligibility	Highlights
<p>GapShare 401(k) Plan:</p> <ul style="list-style-type: none"> Gap Inc. offers a 401(k) plan featuring dollar-for-dollar company matching contributions up to 4% of base pay, with 100% immediate vesting. 	<p>Minimum age of 21, eligible after 12 months of service, with at least 1,000 hours of service during 12 months from date of hire.</p>	<ul style="list-style-type: none"> 87% of eligible employees participated in GapShare’s 401(k) plan in 2008. 86% of eligible employees participated in GapShare’s 401(k) plan in 2007.
<p>Employee Stock Purchase Plan (ESPP):</p> <ul style="list-style-type: none"> Employees can receive a 15% discount off the fair market value of Gap Inc. stock on the day of the stock purchase. 	<p>Full-time and part-time employees are eligible.</p>	<ul style="list-style-type: none"> In 2008, 8,165 employees participated in ESPP purchasing 1,543,827 shares of company stock. In 2007, 9,197 employees participated in ESPP purchasing 1,485,697 shares of company stock.
<p>Wage Replacement</p>	<p>Available to employees classified as full-time.</p>	<ul style="list-style-type: none"> Through our supplemental plans, Gap Inc. provides a non-taxable benefit of 65% of monthly wages until age 65 or until no longer disabled.
<p>Tuition Reimbursement:</p> <ul style="list-style-type: none"> Gap Inc. employees can be reimbursed up to \$5,000 per year for approved, job-related academic courses. 	<p>After one year of service, tuition reimbursement is available to all employees classified as full-time.</p>	<ul style="list-style-type: none"> Over 2,000 employees take advantage of this benefit each year.
<p>Free financial planning/counseling</p>	<p>Available to employees classified as full-time.</p>	<ul style="list-style-type: none"> This free service helps employees take full advantage of Gap Inc.’s benefit offerings.
<p>Access to home loans at reduced rates</p>	<p>Available to employees classified as full-time.</p>	<p>N/A</p>

Note:

The benefits data in the chart applies to U.S. only, unless otherwise noted. Internationally, we align employee needs with the health care and wellness options available in each country to ensure we’re providing a comprehensive benefits package for our employees. Employees who are classified as full-time are eligible for benefits.

The following chart provides an overview of Work-Life Balance & Lifestyle Programs offered by Gap Inc. Our emphasis on wellness includes three new programs: Weight Watchers, Smoking Cessation, and Commuter Benefits. All three programs have garnered high interest and participation from our employees.

2008 Work-life Balance & Lifestyle Programs

Program Description and Coverage	Eligibility	Highlights
<p>Paid Time Off (PTO):</p> <ul style="list-style-type: none"> Gap Inc. provides paid days to use toward vacation, sickness or personal time, in addition to company paid holidays. 	All employees classified as full-time are eligible for holiday pay and PTO on date of hire.	<ul style="list-style-type: none"> Employees ranked Paid Time Off as the second most valued benefit (first was the Employee Merchandise Discount).
<p>Wellness Programs:</p> <ul style="list-style-type: none"> Weight Watchers Smoking Cessation 	Available to employees classified as full-time.	<ul style="list-style-type: none"> Nearly 4,000 employees participated in these programs in 2008.
Commuter Benefits	Full-time and part-time employees are eligible.	<ul style="list-style-type: none"> More than 2,500 employees took advantage of this tax free benefit in 2008.
Generous Merchandise Discounts	Full-time and part-time employees are eligible.	<ul style="list-style-type: none"> In 2007, employees received more than \$100 million in savings on merchandise purchased. In 2008, employees received approximately \$90 million in savings on merchandise purchased.
Take 5 Program	Gap Inc. offers employees five hours of paid time to volunteer each month.	<ul style="list-style-type: none"> Full-time and part-time exempt corporate employees worldwide are eligible.

Note:

The benefits data in the chart applies to U.S. only, unless otherwise noted. Internationally, we align employee needs with the health care and wellness options available in each country to ensure we're providing a comprehensive benefits package for our employees. Employees who are classified as full-time are eligible for benefits.

The following chart provides an overview of New Parent Support benefits offered by Gap Inc. With a relatively young and family-oriented employee population, we provide a wide range of support for new parents. This support helps attract and keep great employees as they start and grow their families.

2008 New Parent Support

Program Description and Coverage	Eligibility	Highlights
Adoption Assistance Reimbursement Program	Available to employees classified as full-time.	• Approximately 35 employees took advantage of this benefit in 2007 and 2008.
Childcare Support	Available to employees classified as full-time in New York and San Francisco.	N/A
Health Pregnancy Program pre-natal risk assessment service	Available to employees enrolled in United Healthcare.	N/A
Maternity Leave	Available to employees classified as full-time.	N/A
Paternity/adoption leave, with additional Baby Bonding leave available	Available to full-time employees with 12 months of service and 1,250 hours of service prior to start date of leave.	N/A
Phase Out/Phase Back Program to assist new parents	Available to employees classified as full-time.	N/A

Note:

The benefits data in the chart applies to U.S. only, unless otherwise noted. Internationally, we align employee needs with the health care and wellness options available in each country to ensure we’re providing a comprehensive benefits package for our employees. Employees who are classified as full-time are eligible for benefits.

The following chart provides an overview of Community Investment benefits offered by Gap Inc. These benefits encourage employees to play an active role in the causes that matter to them.

2008 Community Investment Benefits

Program Description and Coverage	Eligibility	Highlights
<p>Gift Match:</p> <ul style="list-style-type: none"> Contributions to all eligible nonprofits are matched, dollar for dollar. Donations can be made as one-time gifts or via payroll deduction. 	<p>All full- and part-time employees.</p>	<ul style="list-style-type: none"> In 2007, Gap Inc. contributed more than \$2.3 million to thousands of nonprofit organizations via Gift Match. In 2008, Gap Inc. contributed more than \$2.5 million to thousands of nonprofit organizations via Gift Match. In 2007, more than 6,500 employees participated in Gift Match. In 2008, more than 5,400 employees participated in Gift Match.
<p>Money for Time:</p> <ul style="list-style-type: none"> For every 15 hours an employee volunteers in a calendar year with one nonprofit, Gap Inc. will donate \$150. 	<p>All full- and part-time employees in North America including Canada and Puerto Rico.</p>	<ul style="list-style-type: none"> In 2007, Gap Inc. contributed more than \$297,000 to Money for Time. In 2008, Gap Inc. contributed more than \$359,000 to Money for Time. More than 800 employees per year participated in Money for Time in 2007 and 2008.
<p>Board Service Match:</p> <ul style="list-style-type: none"> To support the leadership offered by our executives on nonprofit boards of directors, Gap Inc. will make a donation to the nonprofit on whose boards our leaders serve. This is in addition to these individuals' annual gift match allocations. 	<p>Regional directors, senior directors and above.</p>	<ul style="list-style-type: none"> In 2007, Gap Inc. contributed more than \$113,000 in Board Service grants. In 2008, Gap Inc. contributed more than \$250,000 in Board Service grants. In 2007, 22 employees used Board Service. In 2008, 50 employees used Board Service.

Note:
The benefits data in the chart is based on calendar year and applies to employees worldwide, unless otherwise noted.

This chart compares work-related employee injuries between U.S. Gap Inc. retail locations and all other U.S. Gap Inc. locations. It measures frequency year-over-year since 2007. The data shows that the company’s number of work-related injuries has dropped since 2007.

2007-2008 Workplace Health & Safety Data

	Retail Stores		All Other Locations		Total	
	2007	2008	2007	2008	2007	2008
Number of Gap Inc. Employees	117,106	109,045	10,581	10,650	127,687	119,695
Workers’ Comp Claims	1,886	1,630	290	277	2,176	1,907
Time Loss Claims	279	230	98	84	377	314
Hours of Exposure	103,812,484	89,662,113	15,212,075	13,790,927	119,024,559	103,453,040
Rate of Injury per 200,000 Hours Worked	4.17	4.15	5.10	5.24	4.29	4.29
Safety/Injury Incident Reports	7,712	7,104	806	895	8,518	7,999
Occupational Injury-Related Fatalities	0	0	0	0	0	0
Experience Modification Factor	N/A	N/A	N/A	N/A	0.75	0.73

Note: Chart reflects U.S. data only, reported by calendar year.

Goals and Progress

Community Investment Full Section

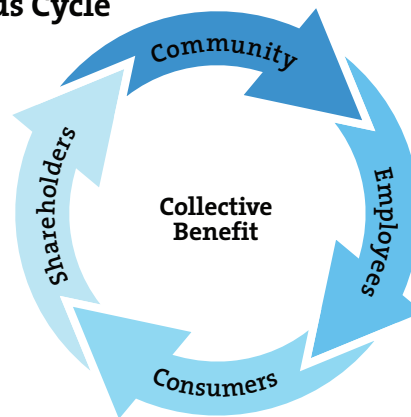
Businesses use innovation every day to solve problems and create opportunities. At Gap Inc. we apply this thinking to community investment, using innovation to solve social problems and create new possibilities. And we're beginning to see the results of our employee engagement, signature programs and community partnerships.

Our strategy is built on two ideas: leveraging company assets and the "virtuous cycle."

Like most businesses, Gap Inc. has many assets beyond cash that can have a positive impact on the community. When we think about community investment, we consider our stores, marketing expertise, globally recognized brands, vendor relationships and, most importantly, our talented employees. Leveraging these corporate assets enables us to have a deeper impact than we could if we focused solely on writing a check.*

In addition to leveraging our assets, we aim to create a "virtuous cycle" in everything we do. When we invest in community, we want to benefit all the stakeholders involved – our employees, customers, shareholders, vendors and communities. By designing programs that benefit all, we have shifted our model from one based on charity to one focused on sustainable investment.

Virtuous Cycle



We have been practicing this new way of investing in our communities for three years, and we're learning as we go. Like all innovation, this work requires thoughtful risk-taking, an appetite for learning from our mistakes and a host of supportive partners to make it happen. As we begin to see positive results from our shift in strategy, we're encouraged to continue along this path.

* For more on this topic, see Changing the Game: Leading corporations switch from defense to offense in solving global problems. Kramer & Kania, Stanford Social Innovation Review, Spring 2006. (http://www.ssireview.org/articles/entry/changing_the_game/)

The vision of Gap Foundation is simple: to create opportunities for people to own their future and fulfill their personal promise. Our mantra, “Be What’s Possible,” is a call to action for those we aim to serve — and for ourselves.

We focus our investments on underserved youth in the developed world and women in the developing world because, based on our company’s assets, we see the greatest potential to have an impact in these areas.

As a company, we understand youth culture. In fact, throughout our 40-year history, we have given many young people their first jobs. But young people from underserved communities often lack access to information about how to get a job and keep one. They aren’t exposed to the variety of careers available, or don’t understand the education it takes to pursue them. Through our community investments, our goal is to keep youth engaged in their education and help them better prepare for adulthood through lessons learned from the world of work.

Supporting women’s advancement is another great fit for our company. Women represent over 70 percent of our employees, and have an influential role throughout our management and culture. Since women comprise approximately 80 percent of garment workers worldwide, they also play an important role in the entire apparel industry. While many social programs focus on finding a means of income for women in the developing world, fewer help them advance once they are in a job. We focus our investments in the developing world on educating female garment workers and helping them move ahead in the workplace, as well as in life.

GOALS AND PROGRESS | Community investment | A high leverage investment

We concentrate our community investment on programs that are aligned with our target causes—underserved youth and women. This has allowed us to focus our efforts, become more knowledgeable about our funding areas and develop deeper partnerships with nonprofits. But it's also had an unintended consequence: We end up providing fewer resources for nonprofits to invest in their own development and build their own capacity.

While we have provided small capacity-building grants over the last two years, we've decided to apply our core strategies to this effort as well. During 2008, we began developing a program pilot to build the leadership capacity of our youth-serving nonprofit partners.

We began by exploring our youth-serving nonprofit partners' needs through a third-party assessment. These partners requested development in a number of areas related to leadership and management including: managing organizational change; setting vision and strategy; fostering leader self-awareness; and driving organizational performance.

In response, our capacity-building program will leverage leadership programs originally designed for Gap Inc. executives and tailored by our Human Resources team with support from CompassPoint, a nonprofit consulting firm. Gap Inc. company executives will play a key role in program delivery, benefiting our nonprofit partners and enriching our employees as well. And of course, we'll evaluate the program pilot to better understand its impact and identify opportunities for improvement.

The two-year program is scheduled to launch in September 2009, with a kick-off summit convening over 60 leaders from 28 of our youth-serving community partners in North America. Over the course of two days, leaders will participate in intensive learning workshops focused on visionary leadership, change management and strategic planning. They will then work in smaller groups over the next 12 months, revisiting these principles and expanding upon them. In 2010, all participants will reconvene to share learnings and begin a second phase of learning, building on the foundational elements from year one.

"Gap Inc.'s capacity building initiative is an important step toward benefiting the organizations they support in a more impactful way," says Marla Cornelius, projects director for CompassPoint.

"In this economic climate, it is becoming more and more difficult for organizations to invest in staff development and infrastructure improvements," she adds. "By leveraging Gap Inc.'s internal talents to identify and support the needs of nonprofits, this initiative is not only innovative in design, but is an exciting example of a creative corporate and nonprofit partnership as well."

Of all our company assets, none is more valuable than our more than 130,000 employees. Our work in the community would not be possible without them.

In our headquarter locations, more than 100 community leaders volunteer to organize company-sponsored service events and act as ambassadors for our work in the company and community. Each of our stores—or in some cases districts—also has a community leader, expanding our team of leaders to 2,000 employees. Through this team and the commitment of all our employees, Gap Inc. makes significant daily contributions to our communities.

Karen Baker, Secretary of Service & Volunteering for the State of California, says that the era when volunteering was just “a nice thing to do” is over. “The health of many of our social services depends on the involvement of the private sector in a systemic, strategic way,” she says. “Gap Inc. is helping to lead the charge, directing the many skills of its workforce toward creating social change. Volunteering has always been a positive, but now companies like Gap Inc. are poised to make a much deeper impact.”

By volunteering their time, talent and commitment to local nonprofits, our employees make diverse contributions. Their volunteer efforts include tutoring young people in Chicago, providing legal services to a youth organization in Oakland, raising money for AIDS programs in Canada, providing advice for women returning to the workforce in New York, painting the walls of a youth-serving nonprofit in France, and cleaning up beaches in Japan, among many others. Over the past two years, we’ve expanded our employees’ volunteer opportunities through a wide range of programs.

We see a direct connection between our employees’ volunteerism and their commitment to Gap Inc. Engaged employees deliver strong business results, which is good for the community and our company. In a 2007 employee survey, nearly all respondents said it is important for them to work for a company that invests in the community. Studies also show that when a person is emotionally connected to a cause, giving is related to positive emotions and personal happiness. The bottom line: volunteering makes people happy, and happy people make better employees.*

“I volunteer because I understand how lucky I am to have a secure and fulfilling job that affords me things like food, transportation and a home,” says Kim Gauthier, Old Navy district manager. “Particularly in this economy, there are many people who don’t have life’s necessities, and it is important to give if you have the means to do so.”

When describing the benefits of skills-based volunteersim, Kathleen Kirkish, a Human Resources director in our online division, says: “My involvement with this program has provided an incredible opportunity to expand my knowledge of the development needs of grantees. I’ve been able to significantly extend my professional network and apply my expertise in leadership development in building a program that increases capacity of nonprofit leaders to impact the communities they serve.”

Becca Finn, a communications specialist for Banana Republic, involves herself in the community in a variety of ways, including opportunities through Gap Foundation.

(continued)

* The Happiness of Giving: The Time-Ask Effect. Aaker & Liu, 2008.

“Through different programs, I have been able to work with various nonprofits throughout the year,” she says.

“Most of these projects are just once a year, but have become a part of my life, and I continue to volunteer with each organization throughout the year and as the need arises.”

Robert Gill, a Gap Inc. college recruiting and immigration coordinator, has been involved in his community as long as he can remember.

“I’ve always believed that it is each person’s responsibility to try and create positive change around them if at all possible,” he says.

Our employees bring a wealth of skills and passion to volunteering. We aim to connect them with a broad range of opportunities, from hands-on volunteering to skills-based opportunities to board service. Our programs include:

- Money for Time provides a \$150 grant to nonprofits for every 15 hours of volunteering time.
- Take Five offers exempt corporate employees five hours of paid time off to volunteer each month, or 60 hours per year.
- Board service grants are given to support leaders of our company who sit on a nonprofit board by providing that organization with an annual grant ranging from \$1,000 to \$10,000.
- In Action Days are events organized by our family of Gap Inc. brands to provide local volunteer opportunities. Thousands of employees have participated, dedicating hundreds of hours to a wide variety of projects.
- Team Grants support employee team projects. When at least three store employees spend 25 hours volunteering with a nonprofit that supports underserved youth or women, Gap Inc. provides a \$250 grant to that organization. Each store receives an annual grant budget based on store volume. Since the program began in 2006, it has grown significantly, increasing from 220 team projects in 2007 to 723 in 2008.

Nancy Brandes, a longtime Banana Republic employee in Chicago, has organized numerous volunteer projects for store employees. One project involved “adopting” women during the holidays through a leading mental health organization. Others have helped people gain entry into the workforce, with our employees teaching resume writing and conducting practice interviews.

“Employee volunteers always thank me for planning the events and ask what we’re going to do next,” she says.

In addition to expanding programs that support volunteering, we encourage employees to make financial contributions. We offer both one-time and payroll deduction gift matches to further the impact of our employees’ donations to the community.

To expand our employees' range of volunteer opportunities, in 2008 we focused on skills-based volunteerism. While many employees were already using their professional talent to benefit nonprofits around the world, we knew we could involve more of our people in this type of service.

To help our employees and nonprofit partners learn more about skills-based volunteerism, we formed a partnership with the Taproot Foundation, a leader in matching professional talent with nonprofit projects in need of experts. Taproot has helped us match our employees with projects in the community, while providing valuable guidance as we grow our knowledge base in skills-based volunteerism.

"Gap is really a leader right now in being able to provide this opportunity," says Lindsay Firestone, Taproot's manager of strategic partnerships. "We, as a society, really rely on nonprofit organizations for many social needs. To be able to focus skills from Gap Inc. employees on these projects means that communities will be served exponentially better."

Today, our employees provide skills-based volunteerism that ranges from writing a competitive analysis for a women's organization and creating a database for a workers' rights group to providing organizational development for a family services agency. In 2008, 18 attorneys and other team members from our legal department began working with two of our youth nonprofits, acting as their internal legal department.

"This really keeps our employees motivated and engaged, plus it adds a benefit to communities that you can't put a price on," says Henry Fong, an attorney in our Employment Law group who organized the Legal department's effort to serve youth organizations.

In order to reach our goals in the community, we collaborate with a diverse mix of organizations. We consider the organizations we support to be partners, not “grantees.” Likewise, we consider ourselves not as funders, but as social investors who believe in leveraging our company assets and linking our partners to assets beyond cash. We call this effort “link and leverage.”

These days, when we meet with our partners, we discuss what assets we can link to their organization, and how we can best leverage them. We evaluate whether we can provide a board member, additional resources such as volunteers, special skills needed for a project, job shadow opportunities, training materials, in-kind contributions—all opportunities to deepen the impact of our investment.

In 2009, we asked the organizations we fund to anonymously assess our performance as partners. Overall, their feedback was positive and highlighted our unique strategy of linking and leveraging our internal resources.

Through linking and leveraging, we have created added points of contact that allow us to deliver more to our partner organizations, engage more strongly, and in turn, make a greater impact in the community.

Following are some of our key partners, whose work aligns with our strategic focus of serving underserved youth and women.

- Boys and Girls Clubs, one of the country’s largest youth organizations. Its mission: to enable all young people, especially those in most need, to reach their full potential as productive, caring, responsible citizens.
- Summer Search, a national leadership development program that helps low-income young people graduate from high school, go to college, gain successful careers and give back to society.
- The Posse Foundation identifies public high school students with extraordinary academic and leadership potential who may be overlooked by traditional college selection processes. Posse’s partner colleges and universities award Posse Scholars four-year, full-tuition leadership scholarships.
- CARE International, a global organization that works to expand opportunities for women. CARE International places special focus on the multiplier effect of equipping women with the resources to become empowered as they, in turn, help entire families and communities rise above poverty.

We believe it's important to recognize the act of service. While recognition is not the driving reason our employees volunteer, we believe it's one of the factors that sustains their community involvement. Their stories of good work also inspire volunteerism among others, widening the circle and driving further sustainability.

Just as we offer our employees a range of programs to support their community involvement, we also recognize and reward their efforts in many ways. Recognition can be something as personal as a "thank you" note from one of our senior executives or a company-wide article on GapWeb, our internal website. We also recognize our employees' desire to do more for the community with two annual awards: Community Corps and the Founders' Award.

Community Corps

Each year, through our Community Corps program, we offer approximately 50 employees the opportunity to build a house in partnership with Habitat for Humanity. Employees submit applications detailing their history of community involvement and are selected through a competitive review process.

Since 2000, hundreds of our employees have worked on Community Corps builds in the U.S., Asia and Central America. In 2008, employees helped build houses in New Orleans and Guatemala to support areas devastated by natural disasters. "Life-changing" is how many of our employees describe these trips, which also change the lives of those who receive the opportunity of affordable home ownership.

Founders' Award

In tribute to the philanthropic spirit of Gap Inc. founders Doris and Don Fisher, the annual Founders' Award provides grants of up to \$50,000 — and as much as 80 hours of paid time off — to employees working to create change in their communities through involvement, innovation and impact.

Award applicants and winners provide a window into the work that Gap Inc. employees are doing on some of the most important issues of our time: health care, education, the environment and economic development. This is one of the most coveted awards in our company. Each year, the winner and finalists inspire new ideas and passion among our employees for creating social change.

Founders' Award Recipients

2007

Gap Passion Team - Nancy Chan, Angeline Ho, Carina Hui, Patrick Lam, Carmen Ka Man Lau, Ivy Lau, Annie Ma, Andrew Poon, and Josephine Wong

The team developed an e-mentoring program for Summerbridge Hong Kong, a nonprofit organization. The website provides education opportunities to children from low-income families.

2008

Team FSA – Amy Solliday, Paul Adams and Eric Severson

The team partnered with Family Services Agency of San Francisco to contribute to an innovative pilot program focused on providing early diagnosis and cutting-edge treatment of schizophrenia for teens and young adults.

Since 2006, Gap Foundation has focused on bringing about social change through innovative programs that leverage our company assets.

Current Community Investment Goals

Leverage our assets to deepen our impact & continue to engage our employees by offering a range of programs	Estimated Completion Date
Create new opportunities for underserved youth and women by expanding our programs	Ongoing
Deliver at least 65 percent of grants invested in target causes, and invest our company assets to build nonprofit capacity	2009-2010
Continue to connect our employees to our nonprofit partners so that they can increase our impact beyond the cash grant	Ongoing
Drive the annual value of employee-driven contributions of time, money and talent to the community to \$10 million annually	2009-2010
Contribute our knowledge of volunteerism to the national service movement	Ongoing

Completed Community Investment Goals

Change how we think about community investment and continue to engage employees	Completed Date
Shifted from writing checks to developing deeper partnerships with nonprofits and invested 73 percent of our grants in our target causes in 2008, exceeding our goal of 65 percent	2008
Piloted innovative programs that leverage our company assets to provide opportunities for underserved youth and women; programs in expansion	2008
Provided 83 percent of community partners with more than a cash grant through our Link & Leverage efforts	2008
Engaged our employees through supporting a range of programs. We sponsored Camp Old Navy in 2007 and 2008, continued major sponsorship of AIDS Walk New York and San Francisco, and ran our annual Adopt-a-Family program, with employees and stores supporting thousands of families; in 2008, we adopted a record 4,430 families worldwide.	2008
Field Team Grant projects jumped to 723 in 2008, compared with 220 in 2007	2008

Empowering youth

Location: New York

Summary: Through our signature program This Way Ahead, our employees are helping youth gain the skills and confidence they need as they move into adulthood — by exposing them to the real world of work.

Delivered in partnership with The Door, a New York-based nonprofit, This Way Ahead exposes underserved youth to a range of work-related learning experiences including diversity, career pathing, conflict resolution, decision-making and communication skills. The curriculum was written by Gap Inc. employees and is delivered by our store management and The Door staff in four phases: career exploration, job readiness training, an internship, and follow-up support.

Each year, more than 100 youth participate in the program and compete for 40 internship positions in our Gap and Old Navy stores in Manhattan. Interns meet regularly with a supervisor who talks with them about their jobs and their educational and career goals.

Delivering the Virtuous Cycle

To understand the impact of This Way Ahead, we have partnered with the TCC Group to evaluate and help us improve our work. After two years of evaluation, we confirmed that the program is producing positive results on three fronts:

- Participants are building their confidence, improving their ability to more accurately self-assess their skills, and learning how to get and keep a job. They're also recognizing that a high school diploma isn't enough.
- Our nonprofit partners are growing their skills as members increase their understanding of what it takes to help youth succeed in the world of work.
- Our employees are developing their own skills through the program, generating increased levels of pride in the company they work for and enriching their experience at Gap Inc.

Mabel Meneses, a Gap store manager who teaches This Way Ahead classes, goes so far as to call the program “part of my benefits package.”

“My work with the This Way Ahead program has been very rewarding,” she says. “I have been able to learn valuable lessons in facilitation techniques as well as how to approach issues from a different angle. Maybe this work was not supposed to become such a training tool, but it did for me.”

Now in our third year, we continue to learn and improve the program based on the evaluation and feedback from all participants. We plan to expand this initiative to San Francisco in 2010.

Advancing women

Location: India

Summary: Women play a critical role in the apparel industry — comprising approximately 80 percent of the world’s garment workers. Women also play a vital role in the future of societies. When we help a woman in a developing country to better her life, she’s able to make positive changes in the lives of her children, her family and her community.

Many worthy programs in the developing world focus on helping women gain employment. In 2006, we created the Gap Inc. P.A.C.E. (Personal Advancement, Career Enhancement) program which helps female garment workers in developing countries to advance beyond entry-level positions and fulfill their potential through education.

The program leverages our relationships with key vendor partners who have welcomed Gap Inc., the International Center for Research on Women (ICRW) and a local non-governmental organization (NGO), to create an innovative factory-based education program.

We piloted the program in India, one of our largest sourcing markets. Together with the ICRW and Swasti Health Resources, our local NGO partner, we created a program based on the needs assessed at each participating factory location. The result was a two-phase training program that began in 2007.

The first phase of the program is a year-long, six-module course on life skills. The approximately 100 hours of training includes problem-solving, communications and decision-making as well as health, financial literacy and government entitlements. In India, participating women were given paid time off for a significant portion of the program, but were asked to invest their own time as well to ensure their personal ownership of the learning and their success. The first class graduated 280 women.

The second phase of the program focuses on aligning technical training with the workers’ learning abilities and technical potential. This part of the program is in its first pilot phase in India.

The ICRW has evaluated the first phase of the program, and the results are promising: Participating women demonstrate greater confidence in their ability to take on responsibilities and assume leadership roles. They show improved skills in resolving problems and supporting their peers. We have also noted positive impact in the areas of health knowledge, financial literacy and their families’ acceptance of greater mobility.

“One woman learned how to respectfully disagree, so now she is more valued in her home,” says Dotti Hatcher, senior director of Social and Community Investment at Gap Inc., who oversees P.A.C.E. “The more beautiful thing is, she values herself more.”

Based on the pilot’s success, P.A.C.E. is expanding to an additional factory location in India, and the second class has more than 300 participants. We have also launched the program in Cambodia in partnership with CARE Cambodia. The response in Cambodia is also strong, with 260 women in its first class.

Investing globally

Location: London

Summary: They're young people on the margin. But many are eager to get their lives back on track and learn the skills they need to get a job and plot a career path. That's where our volunteers come in.

Every story at Centrepoint is unique, revealing a life marked by struggle and loss at an early age – death, betrayal by an adult, depression, and drugs. While each personal story is unique, they all have at least one thing in common: They've lacked the opportunities to realize their dreams. In partnership with Centrepoint, we hope to shift the narrative.

Centrepoint is a 40-year-old organization that operates throughout London. It provides about 800 young adults a place to stay each night. But it's not just a place to sleep; it's a place to receive other services as well. One program, supported by Gap Inc., is called LifeWise. It's a series of workshops focused on both the routine and the inspiring: how to manage a home, live within a budget, learn job skills and map out a future.

"It's really motivational for them," says John Raynham, Centrepoint's head of fundraising. "It shows them they can achieve things. It gives them enthusiasm for learning again."

Capitalizing on the expertise of Gap Inc. employees

For years, we have supported Centrepoint through grants. Recently, we've expanded our support by encouraging our employees to teach these young people such critical skills as writing a resume and succeeding at an interview.

In 2009, our employees stepped up their involvement. The entire Human Resources team from our London headquarters spent a day at Centrepoint teaching workshops on a wide range of career-building skills. Participants filled out a Gap job application ahead of time, and our employees followed up with feedback and tips.

"Money is essential, but the volunteering adds a different dimension to what we do," Raynham says. "Having HR professionals come in gives a real authenticity to the experience that the young people are having. And meeting these professionals from Gap shows them that there are other things in life out there."

Rewarding hard work

Location: Guatemala

Summary: In October 2008, 25 Gap Inc. employees from around the world traveled to Guatemala to build homes in partnership with Habitat for Humanity — with paid time off to do so as part of our Community Corps program.

Every year, through our Community Corps program, we send approximately 50 community-involved employees on a recognition trip that allows them to do what they are passionate about doing — serving their community. No one who takes this journey comes home quite the same.

On the trip to Guatemala, our team of volunteers worked on building three homes alongside the families who were receiving them. For three days they hauled bricks, mixed cement, built walls and persevered through difficult weather conditions. The structures were simple and built with no power tools — just sweat and commitment.

In the building of these homes, two sets of lives are transformed. For the families, home ownership provides safety, security, and property that can be passed down through generations. For the Gap Inc. employees, building these homes provides an intimate look at life through a lens that changes how we see another culture and our own lives, too. We believe this perspective helps make us better global citizens.

“Working in Guatemala was a great reminder that things we consider ‘basic’ necessities aren’t easily accessible for families living just a few hours away by plane,” said Chris Nicklo, vice president of Brand Engagement for Banana Republic and executive sponsor for the trip. “It was also a reminder of the power that we have as individuals and teams to make a meaningful difference. The appreciation we felt from the families we helped was one of the most satisfying gifts I think I’ve ever received.”

(PRODUCT) RED

Location: Lesotho

Summary: When it launched in 2006, (PRODUCT) RED™ harnessed the passion of consumers and the power of the business world to fight one of the worst health crises in history. Here's how this bold idea has generated real progress and change.

Three years ago, (PRODUCT) RED introduced a new model for creating social change. It called on the power of business and the passion of consumers to address the AIDS crisis in Africa. As a founding partner of (RED), Gap made a multi-year commitment to sell (RED) clothes and contribute 50 percent of the profits to the Global Fund's efforts to fight AIDS in Africa.

Since its launch, (RED) has raised \$130 million for the Global Fund to invest in AIDS programs in four countries: Rwanda, Swaziland, Ghana and Lesotho. All have suffered the devastating impact of the disease.

(RED) funding supports Global Fund-financed grants that have helped put more than 110,000 HIV-positive people on antiretroviral therapy and provided more than 70,000 HIV-positive pregnant women with treatment to prevent transmission to their children. Funding has also paid for more than 3.4 million people to undergo HIV testing and counseling.

The outcomes of these interventions can't be captured by numbers alone. "I've been living with HIV for so many years and yet I am still strong, I can work, I can do everything that normal people can do," says a 35-year-old mother with HIV in Lesotho. Another woman, who began treatment in 2006, now works at an HIV clinic. "I want to see my son go to pre-school, to school, to university and get married," she says.

Beyond treatment, (RED) has also raised the profile of the AIDS crisis. Nearly 50 percent of people who bought a (RED) product said they were now more interested in learning about the issue and taking further action to combat the disease.

Increasing impact

Location: San Francisco

Summary: Our Legal department has found a new way to volunteer that brings valuable skills to our youth-serving community partners.

For nonprofit organizations, legal work can become a daunting expense. For our legal team, this potential problem presented an opportunity. Our lawyers were eager to move beyond scattered volunteer projects to work that would dedicate their professional skills on an ongoing basis to a couple of targeted nonprofits. They started looking for a way to turn what they do every day into vital support for our community partners.

“We really wanted to focus on underserved youth,” says Henry Fong, an attorney in our Employment Law group, who took on the challenge of finding a project. He quickly found plenty of enthusiasm across the department – and among two of our youth community partners.

The legal team is now working with Breakthrough Collaborative and Youth Uprising.

Breakthrough connects middle school students with talented high school and college students who serve as teachers, role models and mentors, providing real-life examples that it’s “cool to be smart.”

Youth Uprising works to affect positive community change by supporting youth and young adults to achieve their potential. Youth Uprising’s music studio is one way of tapping this potential. Building on their success, our legal team is helping them start their own record label.

To supplement its efforts, the legal department brought in volunteers from the law firm of Orrick, Herrington & Sutcliffe LLP and the Mills Legal Clinic at Stanford Law School. “It’s important to us that Breakthrough Collaborative and Youth Uprising have broad support and resources,” Henry says, “and together with Orrick and Stanford, we can tap into our collective expertise to tackle just about any legal issue that these nonprofits face.”

Paul Adams, an associate general counsel who helps lead the volunteer effort, notes that Gap Inc. lawyers have a practical perspective that easily translates to the nonprofit world. At the same time, they grow by working with new clients. “It’s a very neat opportunity to shift your perspective and interact with a partner like Breakthrough Collaborative. It helps you see things differently,” he says.

To date, 18 lawyers and staff are involved in the pro bono work, logging hours on everything from employment matters to trademark issues and real estate. “People are just jazzed about it,” says Wilma Wallace, a Gap Inc. vice president and associate general counsel. “It’s validating your own decision to become a lawyer. It really brings out positive aspects of the profession.”

Company to community

Location: New York

Summary: For 20 years, employees in our New York headquarters have been committing time to God's Love We Deliver, bringing meals to people struggling with illness or isolation.

"Delivery."

Our employees in New York say that simple word many times a week as they carry meals to people who are too sick to prepare their own. Sometimes the door opens only briefly as a health aide accepts the package. Other times, the exchange is more personal. A recipient will express gratitude that a stranger would show up even in the middle of a heat wave or snow storm.

"It's so easy to make a difference. It only takes an hour," says Tauren Hagans, who has been delivering meals almost since she started as an administrative assistant at Gap Inc. three years ago. "You walk back to the office and you feel like you've done something good. It gives you a little boost."

"God's Love," the shorthand used around the office, began its work in 1986, originally in response to the AIDS crisis. The group provides 2,000 free meals a day to men and women dealing with mental and physical health issues. About 50 of our employees carry on a tradition that now spans decades, working in teams and covering for each other when scheduling conflicts come up.

New connections in the middle of a workday

Amy Saulnier, who works in Human Resources and usually partners with Hagans, recalls a day when she was volunteering by herself. She got a call asking if she could deliver extra packages. It was a hot day. It would have been easy to make an excuse. "There was no question – it needed to get done," she said. "You feel really good, because if you didn't get out there, it's possible some people wouldn't have food that day."

Volunteers also value the chance to spend a lunch hour with colleagues. "We have a pretty tight team," says Michael Chiabauda, a senior print designer who organizes the delivery calendar. "I get calls all the time from people who want to join. It's almost a club."

Michael speaks of the "little connections" that make deliveries memorable. He has learned that one of the women he delivers to used to be a successful photographer, while another was a Broadway actress.

"Maybe you're the only person someone sees that day," he says. "They really brighten up. More than anything, it adds a sense of community." Thinking of all the deliveries made by Gap Inc. employees over the years, he adds, "It's an honor to be able to hold the torch."

Juma Ventures

Location: San Francisco Bay Area

Summary: Juma Ventures works to break the cycle of poverty by ensuring that young people complete a four-year college education – through real employment, matched savings and academic support.

Having an original idea is one thing — pulling it off is another. Since 1995, we have partnered with Juma Ventures, an innovative organization that helps hundreds of youth gain the confidence and skills to get into college, successfully complete their education, and prepare for successful careers. We provide Juma with a range of support, from grants and marketing advice to employee volunteers.

“We really feel that Gap Inc. is invested in our work and the success of the youth we serve,” says Alexandra Armenta, Juma’s development manager. “Whatever we need, we don’t hesitate to go to them. When we said we needed support for marketing, they came back and said, ‘Tell us more.’”

Juma’s strong track record stems from its comprehensive approach. One of its biggest innovations has been providing youth with job experience through a social enterprise model. Juma owns and operates concessions businesses at six Bay Area sports stadiums, including AT&T Park, Candlestick Park and the Oakland Coliseum.

The youth who operate coffee carts and sell food in the stands face the typical customer service challenges, as well as the need to multi-task, communicate professionally with co-workers and supervisors, and manage their time. “These are critical skills that young people don’t necessarily get at home or at school,” Armenta notes.

Juma also provides a deep level of educational support. Youth in the program undergo an academic assessment, develop an education plan, get help with SAT preparation, and take an eight-month course to support them in navigating the college application process. Juma also focuses on financial literacy and helps youth build up their savings.

“I had a dream as a kid to go to college in Chicago,” says Cruz Ramirez, a Juma alumna. “With the help of staff, I was able to pull together a bit of my personal life and raise my grades. Not only was I accepted at the university of my dreams, but I was also able to get it all together financially and emotionally.”

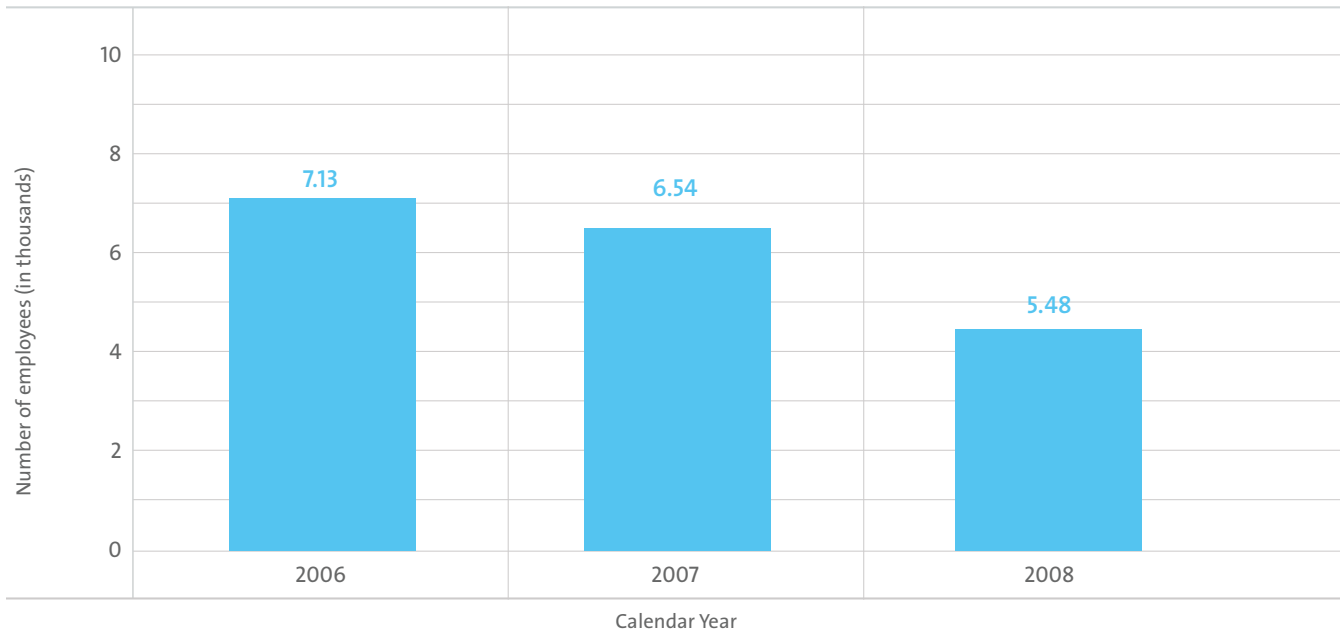
Juma’s innovation extends beyond its programs to its planning and evaluation. “We’re pretty far along in becoming an organization that’s truly data-driven,” Armenta says. Of the seniors in San Francisco in 2008, 96 percent transitioned to post-secondary education, and 100 percent of the class of 2009 is on track to follow in their footsteps.

Goals and Progress

Community Investment Data

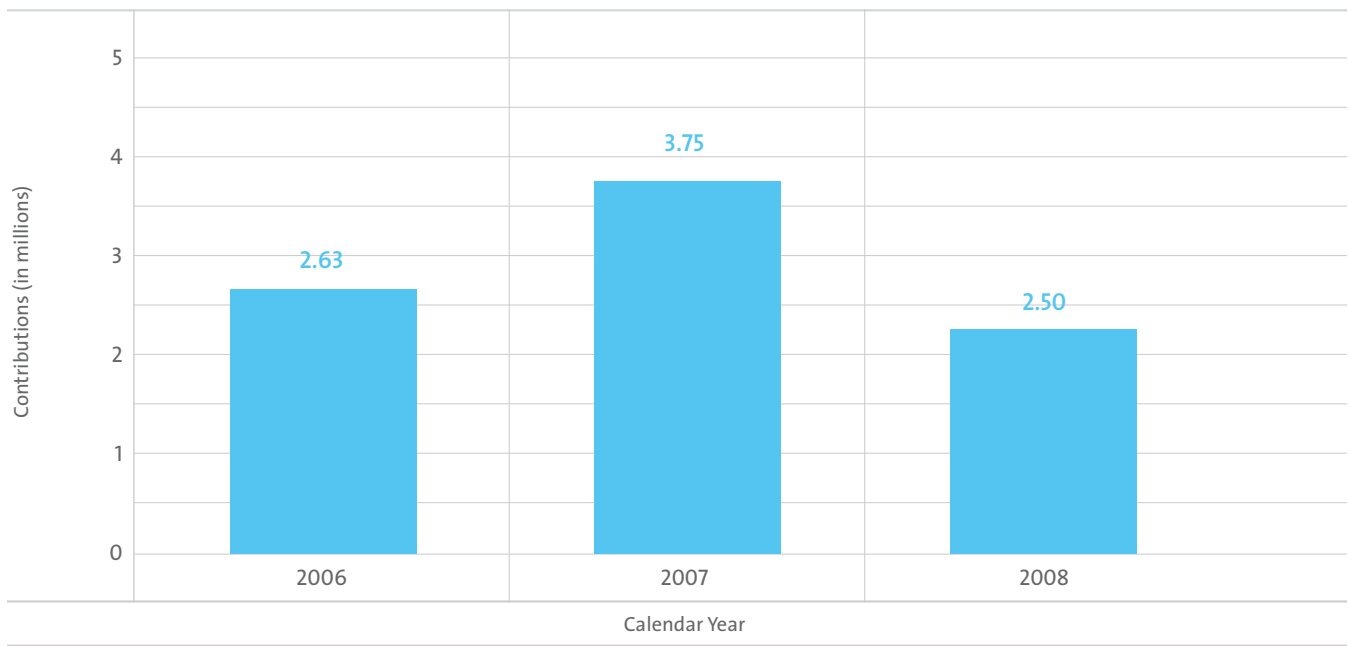
We recognize that our employees are our strongest company asset, and with their help we can make an even greater impact. We believe a contribution of time is just as valuable as a financial contribution. In the past year we've shifted how we measure our community investment to include both our employees' contributions through volunteer time and financial contributions. Our total employee-driven community investment for 2008 was more than \$10 million – that includes their financial contributions (including company match) and their contributions of time through volunteerism.

2006-2008 Financial donations: Employee participation



Note:
This data is based on a calendar year.

2006-2008 Financial donations: Total employee contribution



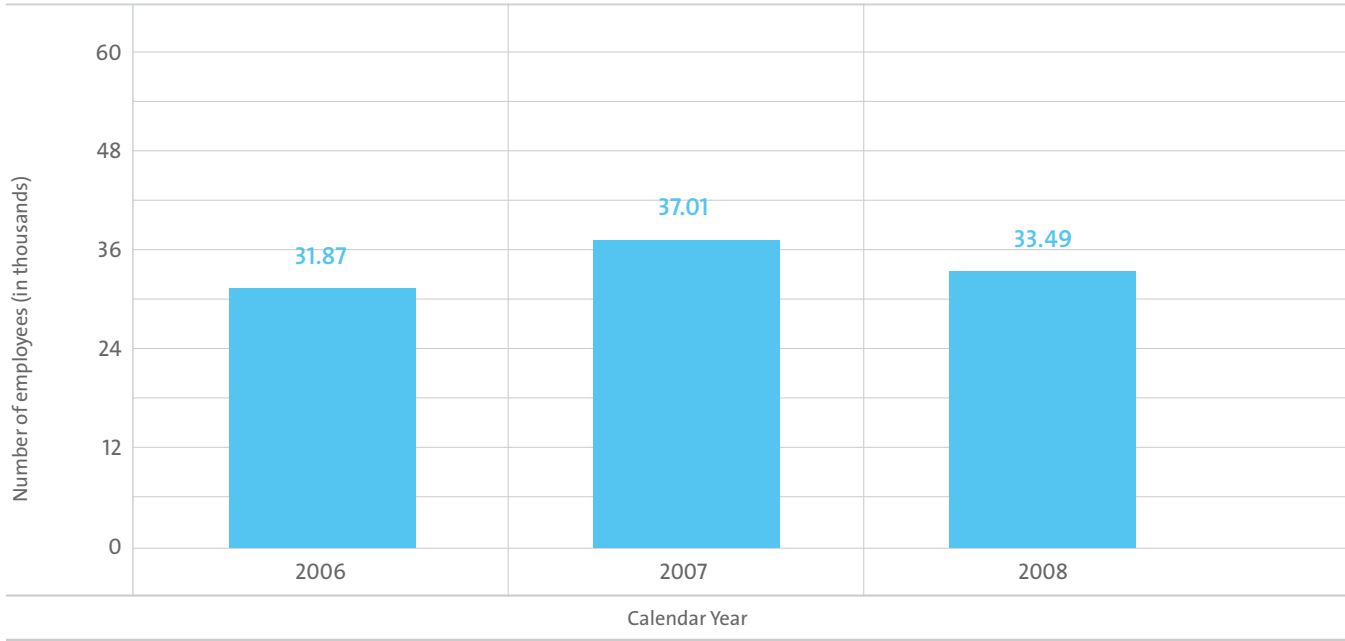
Note:

This decrease in financial giving in 2008 is primarily due to the downturn in the economy. However, the total number of volunteer hours reported increased by 7 percent which indicates that those not able to contribute financially contributed their time. This data is based on a calendar year.

COMMUNITY INVESTMENT | Data | 2006-2008 volunteerism: Employee participation

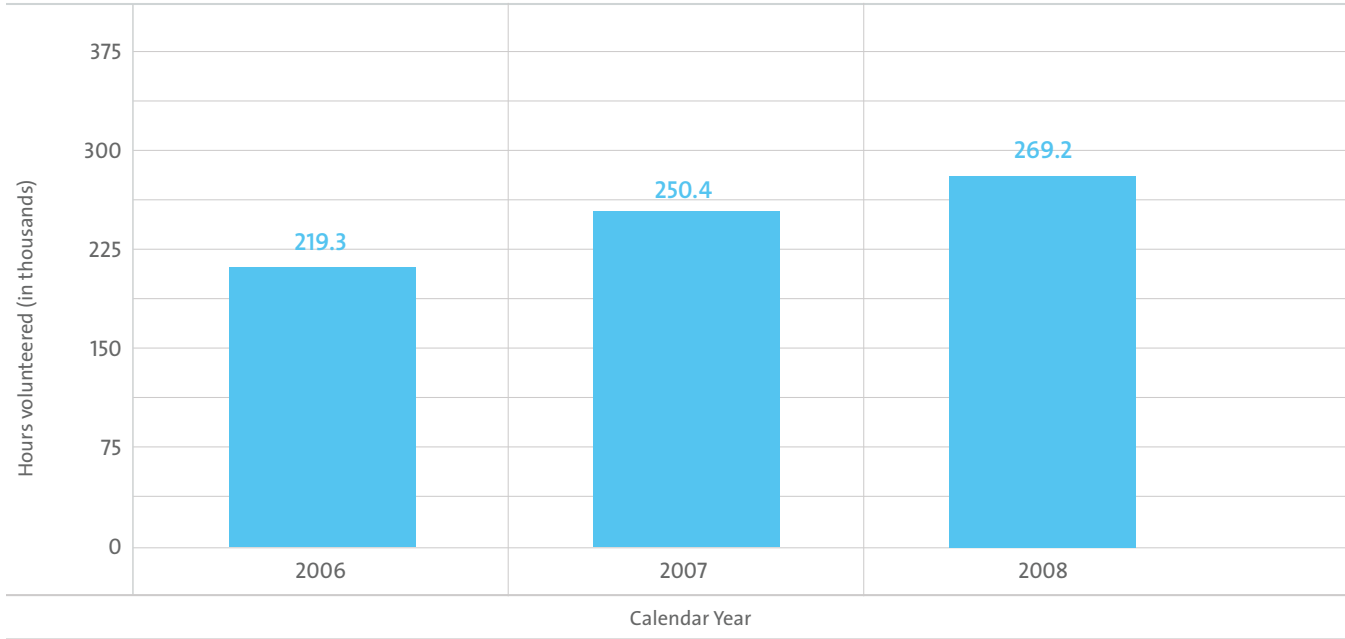
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2006-2008 volunteerism: Employee participation



Note:
This data is based on a calendar year

2006-2008 volunteerism: Total employee contribution



Note:
While the total number of volunteer hours increased, the number of employees that volunteered decreased by 9 percent versus 2007. This was attributed to several factors including an emphasis in 2008 to encourage more strategic volunteerism (such as skills-based volunteerism) and fewer large-scale, one-time volunteer opportunities that involve more employees for shorter time periods. This data is based on calendar year.

Make a
difference
Full Section

You have more choices than ever. What will they be?

On the surface, shopping is a question of gray or black, baggy or tight, dressy or casual. But today, shopping is also about the power you have to support companies when you buy their products.

Does a particular company care for the environment? Does it invest in local communities? Are the people who make the company's products treated fairly?

From the farm where raw materials are grown to the stores where our clothes are sold, a T-shirt or pair of jeans from one of our brands travels a long journey. Along the way, people play a key role, and our actions make a difference.

Just as you, as a consumer, have choices, so do we. At Gap Inc., we take our choices seriously, challenging ourselves to create the most positive impact we can.

We see these choices as part of a work in progress. There is always more to do, and as we move forward, we're committed to being open and direct about our challenges and accomplishments.

As you make your choices, we aim to keep you informed about our own.

MAKE A DIFFERENCE | Gap

Our customers know and love Gap for great style, easy looks and bold colors. What they may not know is that our passion for designing clothes is just one of many ways that our talented employees contribute to the world.

We're dedicated to improving the world around us and lessening our impact on the planet. Doing what's right comes naturally to the people who work at Gap, and our employees are the heart of our company's commitment to social and environmental good.

Our commitment to people and the planet is focused on two major efforts, namely (RED)TM and GREEN.

(RED)

Gap has expanded on Gap Inc.'s commitment to people in developing countries through our (PRODUCT)REDTM program. This program is devoted to helping eliminate AIDS in Africa.

Gap has been a proud partner of (PRODUCT)RED since it was launched at the World Economic Forum in February 2006. Gap's (PRODUCT)RED program contributes 50 percent of all profits to the Global Fund to fight AIDS, Tuberculosis and Malaria. To date (RED) has generated more than \$130 million for the Global Fund and 100 percent of this money is put to work in Global Fund-financed grants to help those living with HIV in Africa. No overhead is taken out.

HOW (RED)TM WORKS



The Global Fund has dispersed this funding into grants for the African countries of Ghana, Rwanda, Swaziland and Lesotho. In order to maintain a constant stream of funding to The Global Fund, Gap is focused on infusing our (PRODUCT)RED collection with great designs and fresh style. The more demand we create for our (PRODUCT)RED the more we can do to help those living with HIV and AIDS in Africa.

In 2009, Gap (PRODUCT)RED launched an Artist Edition T-Shirt collection. This collaboration brings together talented artists to create a limited-edition collection of T-shirts, with proceeds dedicated to eliminating HIV/AIDS in Africa. For this important project, we hand-picked some of the art world's top creative minds, including illustrator/designer Mike Perry, illustrator Steve Wilson, artist Jess Rotter, graphic artist Supermundane (Rob Lowe), and illustrator Hiroshi Tanabe. These limited-edition T-shirts bring wearable works of art to our customers while giving them the opportunity to make a difference in the lives of people affected by AIDS in Africa.

MAKE A DIFFERENCE | Gap

In addition to our work with (PRODUCT) RED we support the Apparel Lesotho Alliance to Fight HIV/AIDS (ALAFA) which we helped to launch in 2006. This initiative seeks to bring workplace-based treatment to workers living with HIV in Lesotho, an African country where Gap Inc. maintains ongoing production.

GREEN

Virtually everything we do has an impact on the planet — from the materials we use in our clothes to the way we ship them to more than 1,000 stores.

Our parent company, Gap Inc., assesses the environmental footprint of all its brands and looks for ways to minimize environmental impact across the company. We participate in many company-wide environmental initiatives, including the Denim Clean Water Program. We require all denim laundries to participate in this program, based on Business for Social Responsibility's strict guidelines. This means that the water used in washing our jeans has been specially treated to ensure that it's safe and clean for local communities when it leaves the denim laundry.

In addition to these company-wide efforts, Gap brand employees are continually finding new ways to ensure that our business operations tread lightly on the environment. Sustainability has become a part of our culture. Across the company, Gap's employees have developed innovative programs and groups that are focused on integrating sustainability into the work we do every day.

In 2008, we began to transition our packaging to recycled paper. Among many other initiatives, we also developed gift cards made of 88 percent recycled content, and we significantly reduced the amount of cardboard boxes used to ship our product.

This year, we launched a campaign to help employees learn waste-reducing disposal behaviors at our headquarters buildings. In the first four months alone, we increased our recycling efforts by 61 percent and reduced our overall waste pick up by 50 percent. We also developed a game to help employees re-think how they approach trash.

Since the day we were founded 40 years ago, Gap has remained committed to doing the right thing: for our business, for local communities and for the planet. Today this passion is still intrinsic to our company culture and guides and inspires our employees in the work they do every day.

MAKE A DIFFERENCE | Banana Republic

Banana Republic is committed to becoming a more eco-conscious brand. The ideal of a clean planet is one we share with our customers and our community. It's also the reason behind our efforts to reduce our environmental impact, while still providing our customers with the same standard of quality and affordable luxury we have built our name on.

Together, we can help to reduce our environmental impact and preserve our natural resources, while running a business that's as good for the earth as it is for our customers — one step at a time. After all, we should all be able to afford a healthy planet.

Greening our Products

Denim Clean Water Program

To achieve the look and feel our customers love, our denim products go through an extensive dyeing and treatment process. We require all denim laundries to participate in Gap Inc.'s Denim Clean Water Program, based on Business for Social Responsibility's strict guidelines. This means that the water used in washing our jeans has been specially treated to ensure that it's safe and clean for local communities when it leaves the denim laundry. All of our denim has this commitment represented on the label.

Sustainable Product

As we continue to grow in our commitment to sustainability, we feel it's important to deliver on products that meet our customers' expectations for modern, urban style, and their desire for eco-friendlier choices.

In Summer 2009, we reintroduced our women's Heritage Collection with a new eco focus. The new collection represents our legacy of safari-inspired design with a luxurious, feminine aesthetic. Approximately 80 percent of the women's Heritage collection is eco-friendly and made from sustainable fibers chosen for their minimal impact on the environment and their luxurious quality. The product is available at select stores and at BananaRepublic.com.

In addition to the Heritage collection, we are also incorporating sustainable fabrics into our core collection for women's tanks and tees and men's tees.

Greening our Packaging

Many of our current packaging supplies, including boxes and shopping bags are made with a percentage of recycled material. We are working to increase these percentages wherever possible.

- Our everyday shopping bags contain 15 percent recycled material and are recyclable. Sale shopping bags contain 20 percent recycled material.
- Our shoe boxes contain 50 percent recycled material and are recyclable.
- Our standard gift boxes are made with 35 percent recycled material and are recyclable.
- Our price tickets are Forest Stewardship Council (FSC) certified and/or made of 100 percent recycled material.
- Our gift cards are made of 88 percent recycled content.
- We are in the process of making all on-garment tags from FSC certified stocks and/or recycled materials.

Greening our Stores

Our eco-conscious approach also applies to our stores. As part of Gap Inc., we're a proud partner of the U.S. Environmental Protection Agency's Climate Leaders program, a voluntary initiative to reduce greenhouse gas emissions 11 percent by the end of 2008. As a result of energy saving upgrades, each of our energy-efficient stores saves more than 16 metric tons of carbon dioxide from entering the atmosphere each year. Beyond that, we keep our environmental impact top of mind when we open new stores and remodel existing ones. For instance,

- Banana Republic store floors are made with Forest Stewardship Council (FSC) certified wood from sustainable forests.
- Our store restroom tiles are made of 15 percent recycled material.
- Our stockroom areas feature wheatboard shelving. Wheatboard offers a greener alternative to particleboard because it eliminates the use of formaldehyde. And because it is lighter in weight, it requires less fuel for shipping.

From day one, Old Navy was a revolution. We were something the world had never seen – fabulous, affordable fashion. We didn't take fashion too seriously. And we broke the industry's rules. We said fashion didn't have to be just for rich people. Or famous people. It could be for everyone. Season after season, we introduced new ideas and hero products to North America, with confidence, and said, "Here. Have fun!" It was fun. And it was full of great deals. We've stayed true to what customers love about us. The fashion. The deals. The energy. In short, we're committed to making fashion fun for all.

The Foundation of Fun

Old Navy is also committed to upholding Gap Inc.'s comprehensive social and environmental factory standards. Before a customer walks out of an Old Navy store with a new dress or pair of jeans, we work with people around the world to design, make and deliver that product in a way that treats everyone involved with respect. It's part of the value we offer a customer, so she can feel good about any purchase she makes in our stores.

The Greening of Navy

At Old Navy, we've recently taken a fresh look at every aspect of our business, including our environmental impact. And we've found that what's good for business can be good for the environment. For example, we've introduced t-shirts made from recycled material, recycled denim jeans, stainless steel water bottles, and reusable bags. Through Gap Inc.'s Denim Clean Water Program ([link to environment/our program in action/clean water](#)), we also monitor denim laundries' wastewater discharge and require them to clean up wastewater practices. If the wastewater isn't properly treated, it pollutes rivers and streams and can harm local communities. A great pair of jeans shouldn't hurt the environment.

In our stores, we've replaced all of the lights in our stores to reduce energy consumption and we're working toward LEED® certification for our new store prototype through the United States Green Building Council. We even distributed a promotional flyer embedded with seeds which grew wildflowers when planted and watered.

We recognize that even small changes can add up, and we're determined to keep finding ways to make an impact.

MAKE A DIFFERENCE | Piperlime

Piperlime launched in November 2006, offering a hand-picked assortment from 150 of the best known shoe brands and a distinctive fashion point of view. Since that time, our fresh online shop has grown quickly, adding hundreds of new brands and expanding into new categories of merchandise. What hasn't changed is Piperlime's strong commitment to our community.

For nearly three years, Piperlime has been the exclusive online partner to Soles4Souls (S4S). Founded in 2004 in response to the Asian tsunami disaster, S4S has distributed more than 5 million pairs of shoes to men, women and children around the world. Piperlime is committed to supporting S4S in its important mission: "Giving the gift of shoes."

Piperlime and S4S have partnered together on many successful initiatives:

- In 2007, Piperlime raised nearly \$10,000 for S4S through a celebrity shoe auction featuring autographed shoes from celebrities including Jessica Simpson, Sharon Stone, Jennifer Hudson and Teri Hatcher.
- In December 2007, Piperlime built a giant stiletto shoe - pulled by tiny reindeer - and took it to the streets of New York to collect shoes and raise awareness for S4S. Over one week, Piperlime collected more than 4,000 pairs of shoes from generous New Yorkers and helped spread the word through articles in The New York Post, US Weekly and Daily Candy, and coverage on the Ellen DeGeneres Show.
- Each and every fall, Piperlime hosts a back-to-school shoe drive, making it easy for parents to send their gently-used shoes to S4S when they buy new ones. In 2008, this became a year-round effort, resulting in the collection of more than 4,000 pairs of shoes.
- In December 2008, celebrities Jane Krakowski and Jessica Szohr lent their support to the effort. Photos of them donating to S4S landed on the pages of Star and Life and Style, and on People.com. Piperlime's guest editor Rachel Zoe appeared on Access Hollywood to speak about S4S.
- Piperlime has given more than \$75,000 in new shoes and direct cash contributions to S4S.
- Piperlime employees have also donated generously. More than 1,000 pairs of shoes have been collected directly from Gap Inc. employees.

MAKE A DIFFERENCE | Athleta

Athleta joined Gap Inc.'s family of brands in September 2008.

Athleta was founded in Petaluma, California, in 1998 with a focused mission: to outfit women athletes and those women who embrace an active lifestyle.

Since Athleta's inception, social responsibility has been embedded into our company's identity and core values. Our products are designed for active women, by active women. As runners, walkers, bicyclers and outdoor people, Athleta's employees take the health of the environment and their community seriously. Our Petaluma location has been a natural focus of our community efforts, which will only expand as we grow into our new role within the Gap Inc. family of brands.

- In 2008, Athleta employees partnered with the Casa Grande Native Plant Nursery Program and Petaluma Wetland to plant native species of vegetation in Schollenberger Park, which is the entrance of the Athleta office in Petaluma, California.
- Athleta is an ongoing supporter of the Petaluma High School girls' athletic program and the Sonoma chapter of "Girls on the Run," where employees act as running coaches and mentor fifth-grade girls.
- Athleta sponsors the annual Petaluma Footrace, which donates proceeds to The Enrich and Educate (E²) Fund to improve the quality of the educational environment for all students in the Old Adobe Union School District in Sonoma County, California. Athleta employees volunteer their time to organize the event and manage the race on race day.
- In the last year, Athleta has provided internships to three female college students, giving them a firsthand experience in how women can make significant contributions in the workplace while maintaining a healthy and fun lifestyle.
- The Athleta team has also participated in The Relay, a 199-mile relay race from Calistoga to Santa Cruz, California, with proceeds benefiting Organs Are Us.
- Athleta has established a workplace that is environmentally aware and active — from installing timers on lights and using sensors for heating and air-conditioning to promoting Ride your Bike to Work Day and using recycled utensils and cups in the break room.

MAKE A DIFFERENCE | Gap Outlet and Banana Republic Factory Stores

Gap Inc. Outlet is a leading retailer in the outlet marketplace, extending the reach of our company's iconic brands. Through both Gap Outlet and Banana Republic Factory Stores, we deliver great product at a compelling value. We believe that people should be free to express themselves, and that style should be accessible and affordable to all.

We are also passionately committed to doing what's right for our customers, our people and our planet. Even as we focus on providing great value, we challenge ourselves every day to reduce our impact on the environment throughout our stores, offices and homes. And we're proud of our results.

Greening Our Products

At Banana Republic Factory Stores, we're excited to have introduced our first organic cotton collection for Summer 2009. This new eco-friendly collection delivers a nature-inspired, feminine aesthetic to our customers and is made with sustainable fibers chosen for their minimal impact on the environment.

All Banana Republic Factory Store products and packaging made with sustainable fibers will feature our green elephant icon, which clearly and easily identifies products that support earth-friendly efforts.

In addition to this collection, we're using organic cotton for our graphic tees and are exploring the use of recycled fibers in our denim and socks.

Finally, we continue to support Gap Inc.'s Denim Clean Water Program in both brands. To ensure the safety of the water that the facilities we work with discharge into the environment, we require all denim laundries to participate in our clean water program, which is based on Business for Social Responsibility's strict guidelines. This means that the water used in washing our jeans has been specially treated to ensure that it's safe and clean for local communities when it leaves the denim laundry.

Greening Our Stores

We do our best to make our stores as green as they can be. We are proud that Gap Inc. and its family of brands are part of the U.S. Environmental Protection Agency's Climate Leaders program, a voluntary initiative to reduce greenhouse gas emissions 11 percent between 2003 and 2008.

Across our Outlet stores, we've invested in temperature-control and management training, and introduced more energy-saving materials and fixtures. We've installed new lighting that's more energy efficient and lowers our HVAC cooling needs, while building concrete and vinyl floors made with recyclable components. As a result of these

MAKE A DIFFERENCE | Gap Outlet and Banana Republic Factory Stores

Improvements, we're proud to say that Outlet has the lowest energy use of all Gap Inc.'s fleets of stores. In addition, we're testing a new store prototype in 2009 with non-toxic paints, eco-friendly wainscot, water-saving restroom fixtures, recycled-metal fixtures and concrete floor and HVAC units. All of these items keep us on track toward achieving our LEED® certification, which recognizes that we meet rigorous standards for incorporating green principles into our store design.

Greening Our Packaging and Deliveries

Many of our current packaging materials are made with a percentage of recycled materials, and we're working toward increasing those percentages whenever possible.

- Price tickets made from 100 percent recycled material are currently being phased into all stores.
- Shopping bags are made with 15 percent recycled material. We're reducing the thickness and gauge of our shopping bags, which will reduce the amount of poly used by 50 percent and the landfill waste associated with poly by over 500,000 pounds annually, as well as decreasing fuel and freight consumption.
- Shoe boxes contain 50 percent recycled material and are recyclable.

In 2007, we reduced our carbon footprint by decreasing the number of deliveries to our stores by over 13 percent and, in 2008, we dropped even further and saved an additional 16 percent.

Greening Our Lives

As part of Earth Day 2009, each employee throughout our offices made one personal resolution to changing one practice, either at home or work, to be more eco-friendly.

Here are a few of our commitments:

"I will start composting!"

"I will start a vegetable garden."

"I will recycle my bath water."

"I will take public transportation to work."

"I will stop using paper cups, plates and napkins."

"I will start a free-cycle program at work."

Whether at home or at work, we're guided by our commitment to act responsibly in supporting people, our communities and the protection of our natural resources.

Appendix

ABOUT THIS REPORT

How this PDF relates to our website

We have moved our Social Responsibility Report online. The PDF that you have downloaded contains the primary content from our Social Responsibility website as of July 31, 2009 — reporting on years 2007 and 2008. It does not include interactive site content and select graphic elements.

Any updates made to the website after July 31, 2009 will not be reflected in this document. Instead, we'll archive this PDF to have a permanent record of our content at the time of the website's launch and create new PDF's in the future so that comparisons can be drawn over time.

We believe in communicating openly about our work in social responsibility. Our website, as well as this PDF, covers our efforts company-wide, both in the U.S. and around the world, at all of our brands: Gap, Old Navy, Banana Republic, Piperlime and Athleta. Data in this document relates to Gap Inc.'s fiscal years 2007 and 2008, which ran from February 1, 2007 until January 31, 2009, unless otherwise noted.

Why we moved online

We wanted to protect natural resources. Not printing a report saves trees — and is more aligned with our environmental strategy. What's more, moving online helps us:

- Reach more people, including employees and customers.
- Share a more detailed picture of our work throughout the world.
- Update information more often.
- Add new interactive features, link to additional materials, and better display our data across time.

Our last report was published in 2007, covering data from fiscal years 2005 and 2006, and we are committed to updating the data on our website at least every two years. We will make more frequent updates to other parts of the site as new information becomes available. We also aim to continue to communicate with our stakeholders on an ongoing basis through formal sessions, informal outreach, dialogue and partnerships.

Stakeholders

We could not have produced our website without the input of our stakeholders. They help us in many ways, from being our eyes and ears on the ground in places where we are not as closely connected to helping us strategize about what to focus on as a company. Our Public Reporting Working Group has been instrumental in producing our website, providing feedback on stories, insights into our overall message, and perspective on our data, progress, and areas where we still need to do more work. Focused on helping us achieve greater transparency and sustainability, this group has been collaborating with us since late 2002; it is comprised of Domini Social Investments, the Calvert Group, the As you Sow Foundation, the Center for Reflection, Education and Action and the Interfaith Center on Corporate Responsibility. Members reviewed the website before it went live. Their statement can be found on our website.

In 2007, SustainAbility completed an assessment of how various social responsibility issues could impact our business performance, how external stakeholders viewed these issues, and how much control or influence we have over the issues. We continue to seek to address the key issues raised in SustainAbility's findings. A detailed discussion of the assessment can be found on page 14 of our 2005/2006 Social Responsibility Report.

ABOUT THIS REPORT

In addition, we provide regular, separate reports on our progress to the Ethical Trading Initiative (ETI), Social Accountability International (SAI) and the United Nations Global Compact (UNGC) as a condition of our membership. We're grateful for the insights and support of our stakeholders and value how much they've helped us improve both our work in social responsibility and our public reporting.

A collaboration of both individuals and organizations, the Global Reporting Initiative (GRI) has played a crucial role in establishing a common framework for social, environmental and economic reporting. In 2005 and 2006, Gap Inc. joined a GRI working group to tailor this framework to the apparel industry, creating an Apparel and Footwear Sector Supplement. The working group of about 20 members represented a geographically diverse mix of major brands, leading manufacturers, civil society organizations, trade unions, environmental experts and investors. The GRI's G3 guidelines and the draft GRI Apparel and Footwear Sector Supplement helped guide us throughout the development of our website. Although it is not in full accordance with either framework, our website and this PDF provide an index of GRI indicators.

The UNGC seeks to promote responsible corporate citizenship so that business can be part of the solution to the challenges of globalization. Since signing onto the UNGC in 2003, we've been working to advance its 10 universal principles in the areas of human rights, labor, the environment and anti-corruption. We've included the UNGC principles alongside related GRI indicators on our website and in this PDF.

We welcome your feedback as we continue to evolve our social responsibility efforts. Send us an e-mail at social_responsibility@gap.com and let us know what you think.

PUBLIC REPORTING WORKING GROUP STATEMENT (2007-2008 REPORT)

Background

We are all living in the wake of an extraordinary collapse in confidence in our financial system. The economic crisis continues to be felt around the world across many industry sectors and through every point in supply chains. It has caused many companies to reduce orders, with the ripple effect of factories closing. Workers continue to face great uncertainty as their lives are deeply affected as part of the changes in the global supply chain.

In addition, in many companies, there is a parallel reduction of budgets for corporate social responsibility (CSR) programs. We understand that this global economic crisis has hurt not just business earnings but has reduced or flattened CSR budgets.

The financial crisis has highlighted how tightly woven together all of our fortunes are. Now is not the time for corporations to return to the old days of business as usual, where “corporate social responsibility” simply meant regular contributions to the company’s favorite local charity.

Once again, we therefore applaud Gap, Inc. for its continued commitment to public reporting which provides public accountability and helps investors—and management—mitigate risks. By continued reporting, Gap underscores the importance of building a sustainable economy and shows continued leadership. We call on companies to take social responsibility and accountability seriously and report on their initiatives as these actions are essential to build a sustainable recovery together. It continues to be a privilege to serve as a sounding-board for the company on these reports, and a pleasure working with Gap management and staff.

We are pleased with Gap’s report and support the company’s shift to online reporting as a means to provide increased access, flexibility, and education for stakeholders. Access to supply chain data is critical for investors and other stakeholders. Gap’s interactive website format enables the company to provide updated information and report innovation and progress in its supply chain. We are pleased to see both current baseline (2007-2008) and trend data by content area and the ability to build custom reports.

We are also pleased with the updated COVC (updated in June 2008) to include a number of improvements such as increasing the minimum working age requirement in accordance with ILO Convention 138, and expanding the anti-discrimination standards to include areas such as indigenous status, social origin, disability and sexual orientation.

In its last report, the PRWG encouraged the company to look deeper into its supply chain to reach the workers that produce the cotton and other raw materials that go into Gap’s products. We are therefore encouraged to see a report on the company’s efforts to address forced child labor in the cotton industry in Uzbekistan, as well as the company’s participation in multi-stakeholder engagement on this issue. Gap has issued a letter to its fabric mills and vendors requesting that they not knowingly use textiles from mills sourcing cotton from Uzbekistan. We look forward to the company’s stated intentions to explore the traceability of its cotton all the way back to the farm level. This will be the next important stage in supply chain accountability, opening a window on conditions in the fields where the raw materials of our consumer economy are grown, and where some of the most egregious human rights conditions still persist.

PUBLIC REPORTING WORKING GROUP STATEMENT (2007-2008 REPORT)

We are concerned about some of Gap's findings, particularly in South Asia, where the data shows a rise in the percentage of factories requiring urgent attention. We understand that the company is examining the reasons for such declines and is proactively addressing those concerns. We would be more concerned, however, if Gap had decided to withhold this less than encouraging information. In the tradition of transparency Gap has set for itself and its industry, we look forward to reading the results of these inquiries in future reports.

Finally, we offer our congratulations to the company on its 40th anniversary.

Adam Kanzer, Esq., Domini Social Investments LLC

Alya Z. Kayal, Esq., Calvert Asset Management Company, Inc.

Conrad MacKerron, As You Sow Foundation

Ruth Rosenbaum, TC, Ph.D., CREA: Center for Reflection, Education and Action

David M. Schilling, Interfaith Center on Corporate Responsibility

RECOGNITION

2009

Gap Inc. was recognized by Maclean's Magazine as one of the Top 50 Most Socially Responsible Corporations based on an analysis by Jantzi Research Company.

For the fourth year in a row, Gap Inc. has been distinguished as one of the 100 Best Corporate Citizens by CRO Magazine, and for the first time was ranked #1 amongst its retail peers.

For the third year in a row, Gap Inc. was chosen by Ethisphere Magazine as one of the World's Most Ethical Companies in recognition of the company's commitment to ethical leadership and corporate social responsibility.

Gap Inc. achieved 100 percent in the Human Rights Campaign's Corporate Equality Index for the past four years, and is ranked as one of the Best Places to Work for GLBT Equality.

Marka Hansen (president, Gap North America), Eva Sage-Gavin (executive vice president, Human Resources, Communications and Global Responsibility), Bobbi Silten (chief foundation officer, Gap Inc.) and Michelle Banks (senior vice president, general counsel, corporate secretary and chief compliance officer, Gap Inc.) were all featured on the San Francisco Business Times' list of Most Influential Women in the Bay Area.

2008-2009: Gap Inc. ranked 7th among specialty retailers in Fortune Magazine's list of America's Most Admired Companies.

2008

Gap Inc. was recognized by the San Francisco Business Times as one of the Top Corporate Philanthropists in the Greater Bay Area (for the fourth year in a row).

Gap Inc. ranked #59 in Fortune's annual Most Desirable MBA Employers survey.

Gap Inc. Direct (GID) was recognized for its efforts to improve Web accessibility for individuals with disabilities at the 2008 Annual California Digital Inclusion Celebration.

Gap Inc. was chosen as one of the top 10 Most Ideal Employers for Undergraduates interested in the fashion, apparel and retail sector for the second year in a row.

Gap Inc. has been ranked among the top three Bay Area companies on climate change for the past two years.

2007

Gap Inc. was named as one of the top 30 companies for executive women in the National Association for Female Executive's (NAFE's) for the third year in a row.

Gap Inc. received the fifth annual Professional Business Women of California (PBWC) Pacesetter Award for supporting the advancement of women in the workplace.

RECOGNITION

2007

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Gap Inc. was commended at the Sixth Annual Business Excellence Awards gala held by the Global Business Coalition on HIV/AIDS, Tuberculosis and Malaria in the category of Core Competency for its efforts in the business fight against AIDS through (PRODUCT) RED.

Gap Inc. received the Secretary of Labor's New Freedom Initiative Award for its support of Founders' Award winner Tina Petallides-Markou and her work with Abilities Inc.

2006/2007

Gap Inc. was a top-rated company among 37 UK retailers evaluated for the Labour Behind the Label's 2006 and 2007 reports.

The Ethisphere Council gives Gap Inc.'s Code of Business Conduct an 'A' grade – the only retail company to receive this grade. The Ethisphere Council is an exclusive group of leaders and practitioners who are raising the visibility of ethics and compliance and improving upon current methodologies.

Gap Inc. received an honorable mention for the Corporate Community Involvement Award, established in 1992 by The Volunteer Center. It is awarded to a Bay Area business that operates an outstanding employee involvement program

Gap Inc. is listed on the following social investment indices: Calvert Social Index; FTSE KLD 400 Social Index (formerly Domini 400 Social Index); Dow Jones Sustainability Index; FTSE4Good Index.