

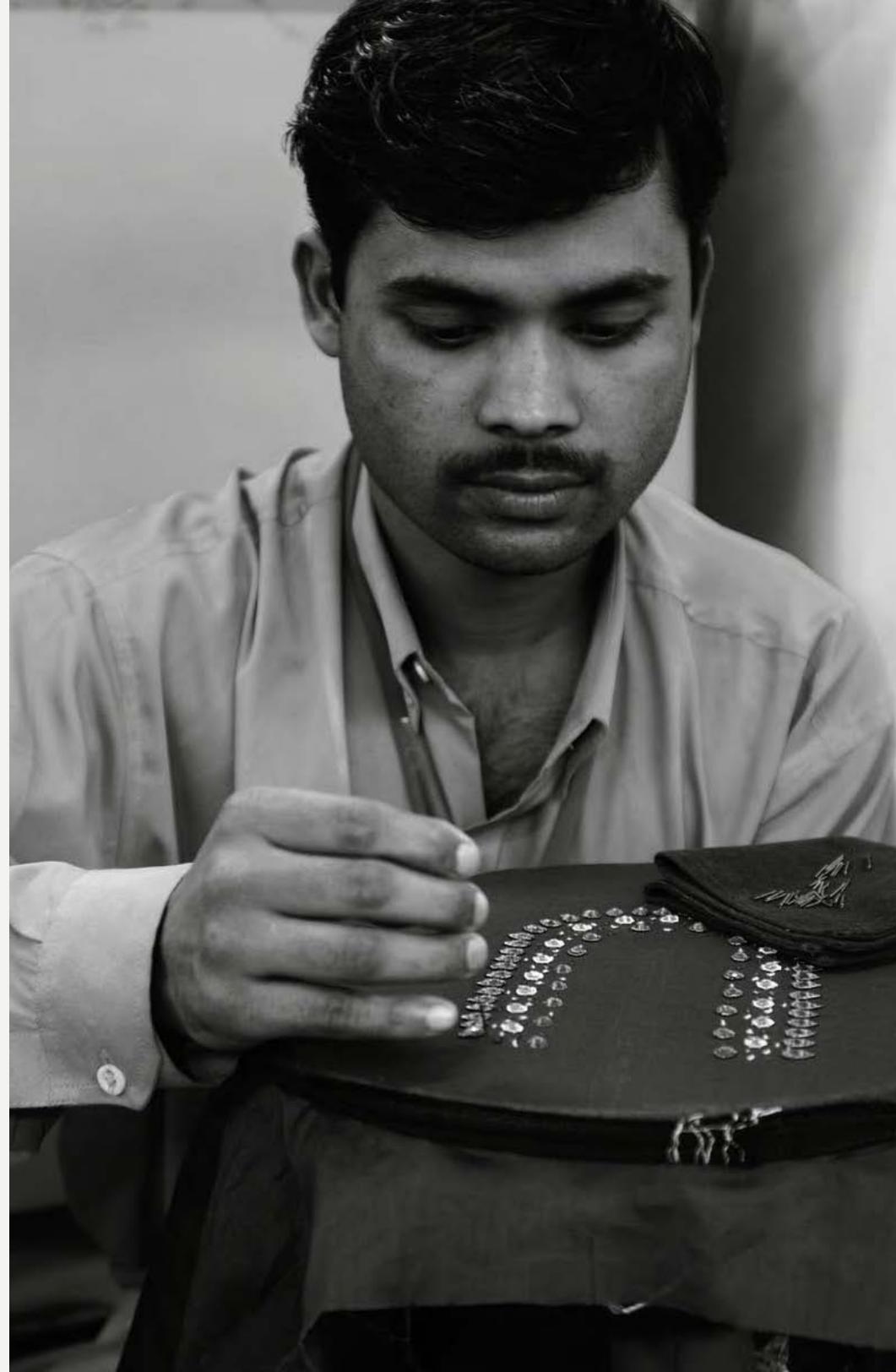
WHAT IS A COMPANY'S ROLE IN SOCIETY?

GAP INC.
2005-2006
SOCIAL
RESPONSIBILITY
REPORT

CAN
BUSINESS
AND
**HUMAN RIGHTS
GO HAND IN
HAND?**



CAN
BUSINESS
HAVE A
**POSITIVE
IMPACT ON
THE PLANET?**



WHY SHOULD COMPANIES CONSIDER HUMAN RIGHTS AND THE ENVIRONMENT?

"I was elected to the first full-time Shop Stewards committee, which formed the basis of the present Industrial Relations Committee. Although I believe there is room for improvement on the pay side, I have generally been satisfied with my progress. The garment factories are the largest employers and most workers are women. We become very scared when workers are temporarily laid off because of order shortages. Our concern is what will happen to these women and their families if employment continues to be interrupted and keeps going down. Most of us are hard working and have improved our skills in textile manufacturing. We hope Gap continues to improve our lives through placement of more orders and encourages other buyers to do the same."

Marianna Matike
Precious Garments factory worker,
LECAWU trade union member,
and breadwinner for three children in Lesotho



"Companies have made our world a global village. Now they must help keep it livable. Because if it can't be made to work for all, in the end it will work for none."

John Ruggie
Special Representative of the
UN Secretary General on
Business and Human Rights

"Business has the potential to make a difference in its spheres of influence. Its future success depends on making responsible corporate decisions which positively impact the creation of a more sustainable world."

Maheesh Amalean
Chairman, MAS Holdings
(manufacturer of intimates for GapBody)



"Climate change is a key business issue that will affect all sectors of the economy, including apparel companies such as Gap Inc. In addition to evaluating business interruption and other risks that climate change could have, Gap should consider shaping the public debate and influencing their customers on the need to tackle this pressing issue."

Andrea Moffat
Director of Corporate Programs,
Ceres

"Acting in an ethical way is not only the right thing to do, but it also unlocks new ways for us to do business better. As a multinational corporation with strong iconic brands, we have the potential to run a thriving business and have a lasting positive impact on people around the world and the environment."

Dan Henkle
Senior Vice President,
Social Responsibility, Gap Inc.

"Human rights are the foundation of a just society and essential to sustainable business. Although governments hold primary responsibility for ensuring rights, the Universal Declaration charges "every individual and every organ of society" with upholding them. Corporations, often financially stronger than governments today, directly impact some of the most fundamental human rights, especially freedom of association and collective bargaining. These rights enable workers to seek and shape a decent living for themselves and their families."

Judy Gearhart
Program Director,
Social Accountability International

WE BELIEVE WE SHOULD GO BEYOND THE BASICS OF ETHICAL BUSINESS PRACTICES AND EMBRACE OUR RESPONSIBILITY TO PEOPLE AND THE PLANET. **WE BELIEVE THIS BRINGS A SUSTAINED, COLLECTIVE VALUE TO OUR SHAREHOLDERS, OUR EMPLOYEES, OUR CUSTOMERS, AND SOCIETY.**

FROM ROBERT FISHER CHAIRMAN OF THE BOARD, INTERIM PRESIDENT AND CHIEF EXECUTIVE OFFICER, GAP INC.

In my nearly three decades with Gap Inc. I've seen many challenges and accomplishments in how our company and our industry address social responsibility issues.

And while I am encouraged by the progress we're making, we all recognize there is much more work to be done.

At Gap Inc., we remain committed to delivering value to shareholders while conducting business in a way that advances the rights of garment workers around the world, lessens our impact on the environment, and provides a high quality of life for employees and those people impacted by our business.

Why?

Simply put: it's good business.

Our social responsibility program is critical for both our reputation and commercial success. It inspires our employees and supports retention and recruiting efforts. It mitigates risk and strengthens our brands. It promotes innovation and creativity as we find ways to use resources more wisely. It motivates our customers in today's socially conscious marketplace. And it helps minimize disruption in our supply chain, which means we can develop and deliver merchandise in a more efficient and less costly manner.

In fact, we've noted an encouraging trend which shows factories that run safe operations and treat their workers well are delivering higher-quality product on budget and on time.

The benefits of our social responsibility programs remain true even in difficult years. In fiscal 2006, Gap and Old Navy faced challenges as customers did not respond well to our merchandise. As a result, merchandise margins suffered and net earnings came in at \$778 million, compared with \$1.1 billion in fiscal 2005. But our brands still have tremendous potential, and we've already started taking the decisive actions necessary to stabilize and grow the business going forward.

Our recent financial results have not hindered our commitment to social responsibility. Even in a time of tremendous change as we work to regain momentum, we are committed to doing business in a socially responsible way.

We know that as a market leader and company with a portfolio of well-recognized brands, we have the potential to help make a lasting, positive impact on people around the world and on the environment. This is an exciting opportunity and one that keeps us motivated as we work to integrate social responsibility more seamlessly into our organization. But we know we can't work in isolation.

In addition to holding ourselves to our own standards, we partner with organizations such as the Ethical Trading Initiative (ETI) and Social Accountability International (SAI) to help us better understand and approach the broad scope of issues that encompass our business. These organizations help us assess our internal processes and decision



making, and continually challenge us to find new and better ways to manage our operations.

Outlined in this Report you will find performance data and results on our programs specific to Gap Inc.'s 2005 and 2006 fiscal years, as well as insights and discussion surrounding our progress, challenges and future goals. We've made the decision to produce our Report on a biennial basis to allow for meaningful results that can be presented to you in a comprehensive manner. In between our published reports, we will update you through our website and other public forums.

We've designed this year's Report around provocative questions in order to underscore the complex issues we face and illustrate our commitment to ongoing dialogue. These are questions we get asked by you, our stakeholders, and they're also the tough questions we ask ourselves every day.

As you'll see in the pages that follow, we've continued to dedicate resources to support our commitment to doing business in a socially responsible way. And, unlike our past two Reports, which focused primarily on the area of ethical sourcing, we have expanded information in this Report to cover other areas, including employees, environment and community investment. We've also added a new section to reflect emerging trends in the marketplace.

For instance, we've outlined more thoroughly the programs and policies that are in place for our 150,000 employees and provided ethnic and gender breakdowns of our North American employee population.

We've also expanded the discussion around our environmental footprint and how we are assessing our role as an environmental steward. We have aligned our priorities with those efforts that will produce the largest impact for long-term environmental sustainability and our business, namely: energy conservation, cotton/sustainable design, and output/waste reduction. We made important progress in 2006, including further reducing energy consumption in our U.S. stores.

This year, we are celebrating the 30th anniversary of Gap Foundation, which continues its mission to create opportunities for people to fulfill their personal promise. In 2006, we narrowed our program to focus on two groups in order to have a deeper and more lasting impact. Today, our efforts are helping underserved youth in developed countries and women in developing countries.

With our deep experience in community giving, we feel uniquely positioned to engage our customers through our brands by tapping into the social issues that are increasingly important to consumers today.

Gap's involvement in (PRODUCT) RED™ is an example of how socially responsible products can provide an innovative way to connect with customers. Founded by Bono and Bobby Shriver,

(PRODUCT) RED leverages some of the world's most iconic brands to help generate funds toward the fight to eliminate AIDS in Africa. Half of the profits from the sales of the Gap (PRODUCT) RED collection go to The Global Fund to finance programs that help African women and children living with HIV/AIDS. We're thrilled to offer our customers Gap clothing that can help make a difference in the lives of women and children in Africa.

Finally, our sourcing practices remain our most material social responsibility issue. In 2005 and 2006 we continued to improve factory monitoring and how we measure performance. We also increased collaboration efforts in areas where our influence as a single company is more limited. We believe a uniform code of conduct will be an important step to help level the industry playing field and hold all brands to the same set of standards. To move in that direction, we plan to publish a revised version of our Code of Vendor Conduct in 2007 to bring it into greater alignment with the codes of SAI and ETI.

Looking Ahead

By finding new ways to deliver great product and shopping experiences in a socially responsible way, we strive to be a company that is respected and trusted by customers, employees, shareholders, and people in the communities where we do business around the world. Critical to this is the dedication of our people — and I want to give special thanks to all our employees who make a difference every day.

We believe that talking about our challenges is an important step toward resolving them. Through our Social Responsibility Reports and ongoing communication, we are dedicated to maintaining an open dialogue.

We look forward to keeping you updated on our progress.

Thank you,

Robert Fisher
Chairman of the Board,
Interim President and
Chief Executive Officer,
Gap Inc.

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* These indicators are drawn from the GRI's G3 Guidelines and the draft Apparel and Footwear Sector Supplement. Please see page 89 for detail regarding our work with GRI.
 ** Please see page 89 for detail regarding our work with the UN Global Compact.

Lettered footnotes in this Report designated by **A-Z** refer to websites where additional information is available. Numbered footnotes cite source information.

Gap Inc. is one of the world's largest specialty retailers, operating more than 3,100 stores in the United States, Canada, the United Kingdom, France, Ireland and Japan. We operate four of the most recognized apparel brands in the world—Gap, Banana Republic, Old Navy, and our newest brand, Piperlime.

Financial Snapshot

Fiscal 2005 and 2006 were difficult years for our business.

In fiscal 2006, our full-year net sales were \$15.9 billion, level with that of fiscal 2005, but our merchandise margins suffered when customers did not respond well to our product. As a result, net earnings came in at \$778 million in 2006, compared with \$1.1 billion in 2005. Earnings per share were \$0.93 for 2006, compared with \$1.24 a year earlier.

Despite some positive developments, such as the launch of Piperlime and the expansion of our Gap and Banana Republic brands into new markets through franchise relationships, we recognized that we needed to take immediate action to address these business challenges. We have emerged with a clear mandate to make the necessary changes to get our businesses back on track.

We are focused on three priorities to improve our financial performance and deliver return to shareholders: fixing our core business at Gap and Old Navy, rebuilding our management strength with the

best talent in the industry, and reshaping our organization through simplifying our work, and reducing our cost structure.

Fixing our business will take time, but we believe that the steps we are taking, combined with our powerful brands, our proven track record of success, and the passionate and creative people on our teams, will help us to realize the great upside potential of Gap Inc.

Our Vision of Social Responsibility

Our world is getting smaller every day. The internet and satellite television give people new levels of access to information. Thanks to e-mail and cellular phones, real-time conversations can now span continents. Ecological disasters and social crises rarely remain isolated to one country or region anymore. Infectious diseases and climate change know no political boundaries.

Gap Inc. plays a role in this new global reality. In the apparel industry, like many others, it is the norm for a product to be made in one country with fabric from another country, and then shipped to a third country for sale. The impacts of this product—whether on the people who made it or the planet's natural resources—easily have ramifications beyond national borders.

How should we operate in this new world of interconnectedness? Can a company achieve its

business goals independent of the people and the planet that make success possible? We don't think so. In fact, we believe that a company only realizes its full potential — as a commercial enterprise, as an actor in local communities, as a steward of the environment and as a relevant brand in the marketplace — when it embraces its role as a global citizen.

Throughout time, business has had a tremendous impact on the world's societies. From early barter economies to the Industrial Revolution, business has shaped and led cultural transformations. Sometimes these transformations have led to extraordinary economic development and astonishing social change. At other times, these transformations have resulted in grave consequences. Often, it has depended on how business has viewed its role in society and whether or not it accepted its responsibilities.

We believe that business has the potential not only to mitigate its negative impacts but also to serve as a catalyst for progress if it fully assumes its place alongside governments and other civil society organizations to find solutions to some of the world's most complex problems.

At Gap Inc., we not only recognize our responsibility to drive shareholder value through profits, but we also embrace our role as a force for economic and social development. We aspire to become a company that utilizes the power of our creative energy not just to sell products, but to do so in a way that also benefits people and the planet. We're not there yet, but this is what we're striving for. We believe in the full potential of our company and we are working to realize it.

The Business Benefits of Social Responsibility

We know that social responsibility mitigates risk for us as well as for others. Because we have visibility into our supply chain, we often have advance warning about a factory or country crisis. By working together with our stakeholders, we can also collaborate to find proactive solutions rather than spending the majority of our time and resources reacting to crises.

But we're beginning to realize that social responsibility has the potential to do much more for our business. When factories treat workers well, they also tend to produce higher-quality product and deliver it on time. The more we respect and empower our own employees, the more creative and innovative our products and marketing tend to be. The more we strive to conserve and use our resources wisely, the more likely we are to be creative in our product design, reduce our energy costs, and ensure future access to necessary raw materials. We're increasingly seeing that consumers care about the way companies behave in the global economy. By acting responsibly as a business, we can offer covetable products that respond to this growing consumer demand.

Throughout this Report, we explain how we're working to embed social responsibility practices into our business operations. From experimenting with sustainable fibers to examining the impact that our purchasing practices have on garment factories, we know that social responsibility presents us with innovative and creative ways to do business better.

Management of Social Responsibility at Gap Inc.

We have an organizational structure in place that enables us to turn our vision of social responsibility into action. Our commitment to social responsibility starts at the top with our Board of Directors. The Board of Directors' Governance, Nominating and Social Responsibility Committee assists the board in fulfilling its oversight responsibilities relating to the company's corporate governance obligations and social and environmental practices.

Dan Henkle, Senior Vice President of Social Responsibility, directs the implementation of Gap Inc.'s social responsibility strategy. He is responsible for the company's Global Compliance function that monitors working conditions in contract garment factories, as well as the Environmental Affairs, Global Partnerships, Social & Community Investment, and Strategic Planning & Communications teams. He works in partnership with Bobbi Silten, Chief Foundation Officer, who directs our community investment strategy. Both report directly to Lauri Shanahan, Chief Legal & Administrative Officer, who in turn reports to the Chief Executive Officer.

None of Gap Inc.'s social responsibility initiatives would be successful without the commitment of our employees in departments throughout the company and around the world. The work described in this Report reflects not only the work of the Social Responsibility department and Gap Foundation, but also that of Human Resources and Diversity & Inclusion. It also reflects the commitment of all of our brands and business units to bring these efforts to life.

Corporate Governance

We believe that strong corporate governance practices reflect better management practices in general. We strive for best practices in corporate governance because we believe that a better-run company yields better results, and ultimately, greater shareholder value.

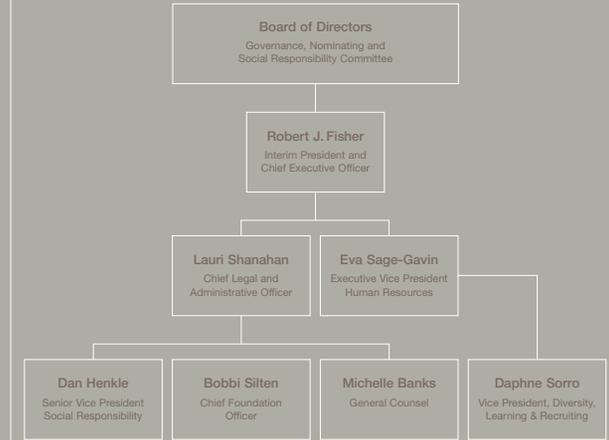
For us, good governance starts with our Board of Directors. A critical component of our governance model is an independent board. It's important for a majority of our board members to be independent of the company and its management. This helps us ensure diversity of thought in the boardroom, an independent perspective on the business and oversight of company management. At the close of fiscal year 2006, our board had 12 directors, nine of whom were independent. At every board meeting, time is

Gap Inc. CSR Scholars Program

In 2005, we introduced a program intended to encourage future business leaders to incorporate social responsibility into their management styles. We partnered with the Haas School of Business at the University of California at Berkeley and provided scholarships to three full-time MBA students with the expectation that they would take electives and conduct an independent study focused on social responsibility strategy. In 2006, we expanded this program to include MBA students at two additional partner schools: Columbia University's Graduate School of Business and the Kellogg School of Management at Northwestern University.

One of the independent study projects undertaken by the first class of Gap Inc. CSR Scholars explored how companies could turn their CSR efforts into business opportunities. Working with members of our Social Responsibility department, two CSR Scholars identified ways that Gap Inc. could both mitigate risk and create business opportunities based upon our foundation of ethical sourcing, environmental affairs, and community investment. This work complements our ongoing exploration of how we can further integrate social responsibility into the business.

Social Responsibility Governance



2006 Full-Time Social Responsibility and Community Investment Employees

Global Compliance		72
Region	Greater China	15
	North Asia	3
	Southeast Asia	14
	Indian subcontinent	13
	Persian Gulf	0*
	North Africa and the Middle East	2
	Sub-Saharan Africa	3
	Europe (including Russia)	7
	United States and Canada	8
	Mexico, Central America and the Caribbean	6
	South America	1
Environmental Affairs		5
Social and Community Investment		3
Global Partnerships		5
Community Investment/Gap Foundation		10
Social Responsibility Strategic Planning		8
Total		103

* The Persian Gulf region is covered by the Europe and North Africa and Middle East teams.

SustainAbility Materiality Assessment

We face a broad range of social responsibility issues in our operations. Given our global scope and the complexity of our business model, we must constantly assess our work to ensure that we are allocating resources in the areas where we can have the greatest positive impact. In 2006, we engaged SustainAbility, an international management consultancy and think tank specializing in corporate responsibility, to help us conduct a “materiality assessment.” Our goal was two-fold: to strategically prioritize our efforts and to focus the scope of this report on the social responsibility issues most relevant to our company.

We asked SustainAbility to assess 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. SustainAbility consultants interviewed Gap Inc. executives and employees, conducted secondary research and convened a group of stakeholders for a half-day session to solicit feedback on preliminary assessment results. This feedback session took place in January 2007 in New York, and included participants from trade unions, non-governmental organizations (NGOs), civil society organizations, multi-stakeholder organizations and academia.

Several major themes and opportunities emerged from this assessment and stakeholder feedback session:

Themes

Interconnectedness: It is clear that the issues we face are inherently interconnected and not easy to disaggregate. We should continue working to understand how they fit together, and how we can best have a positive impact as a company.

Impact: Assessing the impact of our efforts may be one way to “take stock” of our efforts. Impact may or may not be measurable, but that shouldn’t stop us from examining indirect connections.

Integration into the Business: We must recognize the connection between our business decisions and the impact they can have on factories, the environment and local communities. We should continue working to assess our own business processes.

Business Value: We should look for opportunities to create value for the business through our social responsibility efforts.

Opportunities

Supply Chain Labor Conditions: Ethical sourcing remains our most material social responsibility issue and we should not waver in our commitment to ensure fair working conditions at factories that make the clothing we sell.

Employee Development: The success of our business and our social responsibility efforts absolutely depends on developing the best talent in the industry.

Environmental Issues: Climate change and sustainable materials, in particular, present opportunities for us to innovate, engage with customers and energize employees.

Governance and Ethics: How we manage our business is increasingly important to the company and our stakeholders.

Public Policy: It is increasingly important that we examine our public policy positions—from lobbying activities to trade agreements to industry associations.

Throughout this Report, we have sought to address the key issues raised in SustainAbility’s findings and by our stakeholders. For the first time, we have clearly discussed the ways in which social responsibility creates business value for us. We have also provided insight into how these efforts are increasingly connected to our core business operations. We have addressed the five opportunities outlined head-on: public policy, governance and ethics are discussed throughout the narrative, while discussions of environmental issues, employee development and supply chain labor conditions appear in the relevant sections. Finally, we have approached the overall design of this Report with the themes of interconnectedness and impact in mind. We aim to show that each area of our social responsibility work is part of a greater integrated strategy to help us fulfill our potential as a successful, profitable company and as a responsible global citizen.

As our industry changes and our business evolves, we will continue to consider the issue of “materiality” to ensure that our work and our reporting remains as relevant and credible as possible.

set aside for those independent directors to meet in executive session. In addition, only independent directors sit on Gap Inc.’s three board committees. Since 2003, the independent directors have appointed annually a Lead Independent Director.

We are continually evolving our corporate governance practices and working to adopt appropriate best practices. In 2005, the board amended its corporate governance guidelines to provide that any nominee for director receiving more votes “withheld” than “for” his or her election shall offer a letter of resignation. The board must act on the letter in a reasonable period of time and publicly disclose its decision.

Anyone may communicate governance concerns directly to the board by e-mailing board@gap.com. All e-mails are reviewed by our Chairman and our Lead Independent Director, as well as our Corporate Secretary’s office.

Code of Business Conduct

The Gap Inc. Code of Business Conduct [■](#) is the foundation of our efforts to promote a responsible and ethical work environment. Our Code is designed to help employees avoid conflicts of interest, ensure compliance with laws, and protect our company information and assets. In addition to providing guidelines for proper workplace behavior, it also directs employees to specific persons to contact with questions or concerns.

To measure employee awareness and understanding of our Code, we implemented an audit schedule in 2003. Each year an internal audit team conducts unannounced interviews of employees to assess whether or not business units are clear on our Code expectations and how to report violations of the Code.

In 2005, we introduced the Code of Business Conduct Overview training module, part of our Principles of Integrity suite of training courses, to ensure that our employees understand our Code. This online training is mandatory for all Gap Inc. employees.

We encourage employees to report all violations or suspected violations of the Code to their supervisor or a Human Resources representative. Employees may also directly e-mail our Corporate Compliance department or call the confidential Code Hotline. Our anti-retaliation policy protects individuals who report suspected violations. Categories of the different types of code violations that may arise were reported on page 31 of our 2003 Social Responsibility Report. [■](#)

The Code Hotline is staffed by a live operator from an outside company, 24 hours a day, seven days a week. We take the enforcement of our Code of Business Conduct seriously and every allegation submitted to the hotline is investigated. Calls are free, confidential, and may be made anonymously. Callers from the U.S., Canada, and Puerto Rico can call 866-GAP-CODE. International callers must first dial their AT&T access code followed by 866-GAP-CODE.

More information about our Code of Business Conduct is available on our website. [■](#)

Our Approach to Public Policy

Gap Inc. is a socially engaged company that strives to ensure the best results for our customers, shareholders, employees, and stakeholders. As we continue to have a greater presence around the world, we believe it is important to participate in the political and regulatory processes that affect our business. We work proactively to enable Gap Inc.’s strategies through public policy and government advocacy. We also participate in political activities and advocate for legislation when there is a direct connection to our ability to grow our business and prosper in a way that is consistent with our values, our legal obligations, and our Codes of Business Conduct and Vendor Conduct.

In addition to our active political participation and policy advocacy, Gap Inc. maintains a Political Action Committee (PAC). While our PAC is not as robust as others in our industry, we strive to maintain a balanced approach to its activities. In the 2005-06 U.S. election cycle, the Gap Inc. PAC contributed approximately \$51,100 to federal candidates from both the Republican and the Democratic parties. The Gap Inc. PAC supports candidates whose positions are in line with Gap Inc.’s purpose, values and behaviors and overall business goals of growth and stability. We recognize the importance of continuing transparency about our political activities and public policy positions, and are currently working to develop a process for future communications to ensure that our activities are as open and effective as possible.

Specific examples of our public policy work on trade in Africa, the recent revisions to Chinese labor law, and health care in the U.S. are discussed in the Supply Chain and Employees sections of this Report.

[A](#) www.gapinc.com/public/investors/inv_compliance_cbc.shtml
[B](#) www.gapinc.com/public/documents/CSR_Report_03.pdf
[C](#) www.gapinc.com/public/investors/inv_compliance.shtml

Business and Human Rights

In 2004, Gap Inc. was invited to join the Business Leaders Initiative on Human Rights (BLIHR), a business-led group that seeks practical ways of applying the aspirations of the Universal Declaration of Human Rights (UDHR) within a business context and to inspire other businesses to do likewise.

In 2003, BLIHR members developed the first Human Rights matrix, a practical tool designed to help businesses critically examine the impact of their operations on human rights. The matrix was based on the content of the draft United Nations Norms on Business and Human Rights, which in turn reflected international standards such as the UDHR, and the International Covenants on Civil and Political Rights, and Economic, Social and Cultural Rights. The matrix, which was introduced in BLIHR's *Guide for Integrating Human Rights into Business Management*,* provides a mechanism for companies to self-assess their policies and practices against established human rights norms.

The matrix is an evolving tool, and we are currently working with other BLIHR members to refine it. In particular, it is important to note that the basic rights contained in the UDHR and International Covenants are not easily clustered into broad categories. Since the clustering of rights is important to ensure that the matrix is user-friendly for business managers, BLIHR members are working with human rights experts to determine if these rights should be clustered, and if so, how. We anticipate that BLIHR will be introducing a revised version of the matrix soon, and we will update our self-assessment at that time.

* Download the guide from www.blihr.org/Pdfs/GIHRBM.pdf.

** To understand how we have clustered the individual human rights defined by the UDHR and the International Covenants, please see www.gapinc.com/public/documents/UDHR_breakdown.pdf.

*** Refers to all Gap Inc. owned and operated facilities, including corporate offices, distribution centers, stores, and sourcing and vendor development offices.

**** Refers to contract manufacturers and factories located around the world that produce branded apparel for Gap, Banana Republic, Old Navy, and Forth & Towne.

The matrix shown to the right is in summary draft form only. It represents our first attempt to assess our policies and practices in our owned and operated facilities and across our supply chain against internationally-recognized human rights norms. To color-code each category, we conducted a detailed analysis of our current policies, procedures, and practices. As a member of BLIHR, we felt that it was important to conduct this initial self-assessment, even though the matrix continues to evolve. The exercise not only deepened our understanding of human rights norms, but also helped us identify areas in which we are doing well and areas where we may need to strengthen our policies or practices in the future. We hope that by providing transparency around our findings, we will encourage other companies to consider undertaking the same process.

We welcome your feedback as we continue to evolve our work on human rights. Send us an e-mail at social_responsibility@gap.com.

Self-Assessment of Human Rights in our Policies and Practices

Civil and Political Rights

Fundamental Human Rights as defined by the Universal Declaration of Human Rights, and the International Covenants on Civil and Political Rights, and Economic, Social and Cultural Rights**

Owned and Operated Facilities***

Supply Chain****

Economic, Social and Cultural Rights

Labor Rights

Other Relevant Standards

Freedom from Discrimination

Right to Life, Liberty and Security

Freedom from Slavery and Servitude

Freedom from Torture or Cruel, Inhuman or Degrading Treatment or Punishment

Freedom from Arbitrary Arrest, Detention or Exile

Right to Privacy

Freedom of Movement

Right to Marry or Form a Family

Freedom of Thought, Conscience and Religion

Freedom of Opinion and Expression

Right to Rest and Leisure

Right to an Adequate Standard of Living

Right to Education

Right to Participate in the Cultural Life of the Community

Right to Work, the Right to Equal Pay, the Right to Join and Form Trade Unions

Right to Peaceful Assembly and Association

Safe and Healthy Workplace

Obligations with Regard to Consumer Protection

Obligations with Regard to Environmental Protection

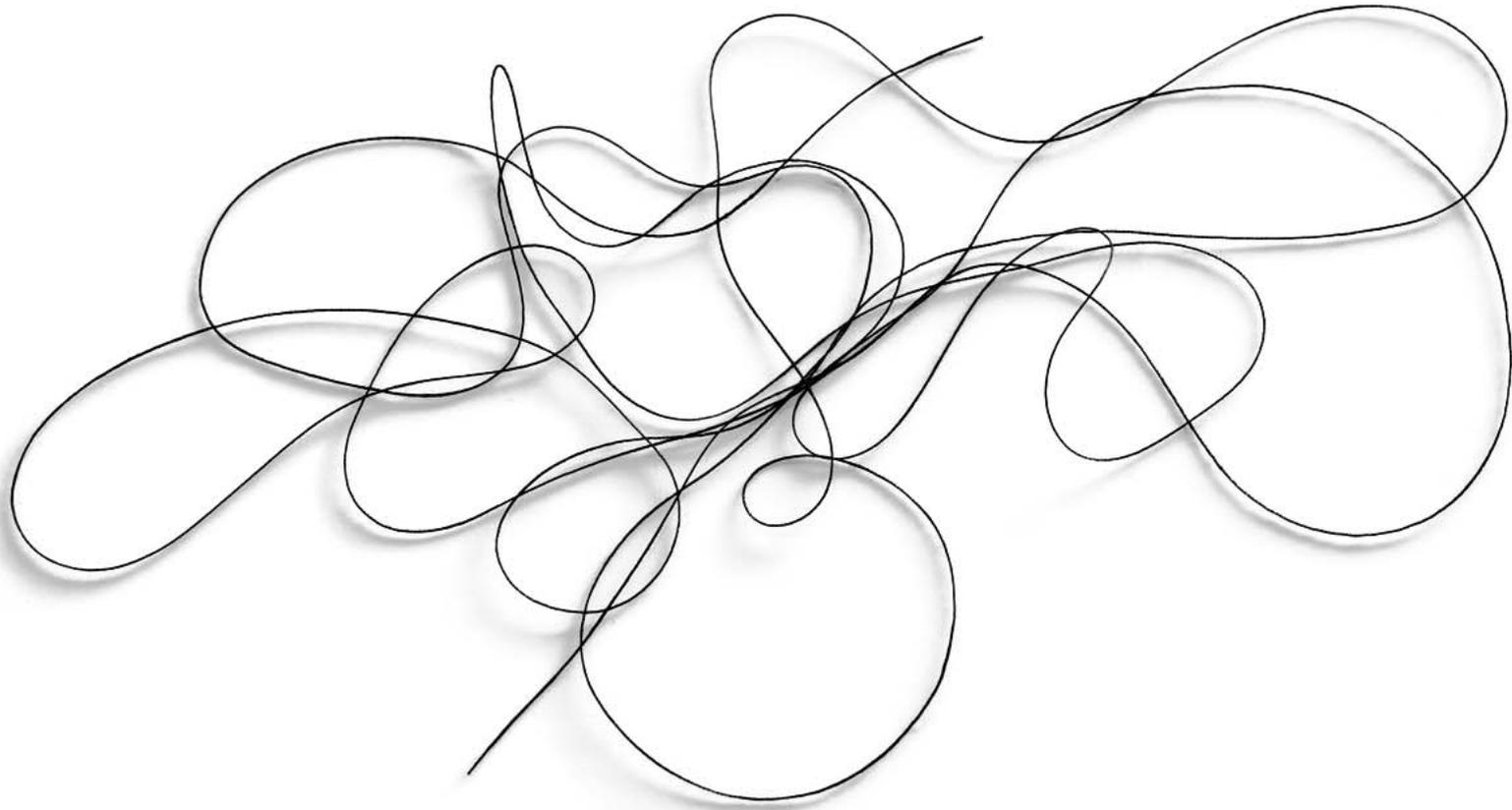
Other Human Rights*****

Key to Chart*****

█ Policies and practices provide, at a minimum, a basic or essential level of protection of human rights to ensure that the company is not complicit in human rights abuses and follows all relevant legal standards, including international, national, and local laws.*****

█ Policies and practices not only provide the minimum or essential level of human rights protection, but also provide additional protection that meets human rights obligations expected of companies by stakeholders.

█ Policies and practices provide essential and expected protection of human rights, and also demonstrate desirable leadership and best practices in the protection of human rights.



WHY DO
WE STRIVE
TO IMPROVE
**FACTORY
WORKING
CONDITIONS?**



We are sometimes asked why we dedicate time and resources to improving working conditions in garment factories. Put simply, we believe it is not only the right thing to do, but that it also creates tangible value for Gap Inc. For example, we know that better working conditions improve the efficiency of our supply chain. Workers who are paid fairly, work a reasonable number of hours and operate in healthy and safe environments tend to be more productive, deliver higher-quality work, and choose to stay with factories longer than those who are mistreated. In addition, our firsthand knowledge of events in factories helps us identify issues and resolve them earlier. We've also heard from our own employees that they are proud and inspired to work for a company that is committed to improving the lives of garment workers. In our view, striving to improve working conditions in the supply chain is a win-win endeavor — for the world's garment workers and for Gap Inc.

A Holistic Approach to Improve Garment Factory Working Conditions

The root causes of poor working conditions in garment factories are varied and complex. As we noted in our 2004 Social Responsibility Report, inadequate labor standards are often the result of a wide range of factors that can be difficult to isolate and address. In some areas, such as our own buying

practices, we may have considerable ability to drive change. We can also set standards for garment manufacturers and require through direct monitoring and enforcement that they achieve a certain level of compliance in order to continue doing business with us. In other areas, such as changing common industry-wide practices or addressing national- and global-level challenges, our influence is more limited and we need to partner with others to work toward collaborative solutions. The chart on page 24 provides an overview of these different areas and our relative influence as a company. We strive to address each of these areas in a way that effectively leverages our strengths and resources as a company and takes into account stakeholder concern.

Measuring Factory Performance

Factory monitoring remains an important part of our strategy to improve working conditions in the apparel industry. As we noted in our 2004 Report, we believe that “what gets measured gets managed.” Monitoring provides us with firsthand insight into factory conditions and serves as an important tool to measure factory progress against our standards. Monitoring not only helps us leverage our influence with contract garment factories through face-to-face interaction, but also provides us with regular data about factory conditions and a mechanism to assess the impact of our efforts over time.

Product Pipeline Overview

Inspiration and Design	Merchandising and Planning	Production and Sourcing	Distribution	Retail Sales
				
In our industry, everything begins with design. This is the most creative phase of our business. Designers gain inspiration from all over the world, and then translate their ideas into sketches and samples. These are eventually assembled into a series of sample collections that are then presented to our merchandising teams.	Our merchants review designers' collections and use their customer knowledge to decide what clothes should be sold in our stores. Merchants work with planners to determine how many styles and colors are needed for each season, and how many units to manufacture in each size. It isn't always easy to predict which products our customers will want to buy, so merchants sometimes make a decision and then change their minds. They may discover new information that suggests an updated color or style will sell better. Or they might realize that a particular style has just become the latest fashion trend. In such instances, they may decide to change a color or style, or order more units quickly. Unfortunately, if these changes take place late in the pipeline process — and if the third-party factories manufacturing the product haven't built enough flexibility into their production lines — compliance violations may result.	Once our merchants and planners have decided on the store assortments, our global production and sourcing teams place orders with approved third-party factories around the world. This process is also very complex. Before a garment can be manufactured, a factory must work with secondary suppliers to obtain all of the necessary components, such as fabric and trim (which includes buttons, zippers, threads, etc.). The factory must also finalize the fit with our sourcing teams. Once all of these steps have taken place, the fabric can be cut, and the garments sewn according to our specifications. The products are then washed, inspected, packed, and shipped to our distribution centers around the world.	In the distribution phase, product is shipped to our distribution centers located around the world. Our staff checks each box. Cartons are counted, quantities are confirmed and random audits are performed. As merchandise is added to inventory, it is designated for delivery to a specific store according to size, color and quantity. The distribution centers then send the merchandise to the appropriate stores.	Finally, it's time for retail sale. Our sales associates sell clothes and accessories to our customers in Gap, Banana Republic, and Old Navy stores around the world. Customers may also buy directly from our e-commerce websites. As each unit is sold, the transaction is registered by our planners and distribution analysts. These analysts monitor weekly sales trend reports and determine which stores need to be replenished with which products. Replenishment shipments typically occur one to three times per week.
			At the end of each season, we assess our performance, gather customer feedback, look for improvements and begin the cycle all over again. Because our pipeline is one of the longer ones in the industry, we are currently working to reduce the length of some aspects of this process. We hope that our purchasing practices work will enable us to identify areas where we can improve our process in ways that benefit both our business and factory workers.	

Product Safety

<p>Safety</p> <p>Safety is a top priority for Gap Inc. and we strive to design and sell clothing that does not pose any safety threat to our customers. Our Product Safety team ensures that our clothes are made to strict safety standards and we test our products for a variety of potential safety issues including the following:</p> <ul style="list-style-type: none"> • Flammability • Attachment strength — Ensuring attachments, such as buttons, can withstand certain levels of force and do not become small parts hazards • Durability • Toxicity of screen-printed graphics <p>We take customer safety very seriously and these testing procedures will remain a critical part of our business.</p>	<p>Regulatory — Chemicals</p> <p>From fabric dyeing to creating unique garment finishes, chemicals are used throughout the entire production cycle of most garments. We know that certain chemicals can prove harmful to people so we have developed a “Restricted Substance List” that dictates which chemicals cannot be used when producing our clothing. We based this list on legislation, but because safety expectations are regulated by country governments, acceptable limits of chemical levels in garments differ from one country to another. Our chemicals testing procedures test for acceptable limits in those countries in which we sell product where accepted levels are strictest.</p>
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Factors Contributing to Poor Working Conditions in Garment Factories

We first introduced this chart in our 2004 Social Responsibility Report. As we noted then, one of the biggest challenges we face is that the root causes of poor working conditions in supply chains are very complex. Inefficiencies in our own buying practices—and those of other companies in our industry—can have a negative downstream impact on working conditions. Even the most conscientious garment manufacturers may unwittingly contribute to problems on the factory floor through weak management skills, outdated operations or equipment, or a tendency to take on too many production orders. In addition, systemic national and global problems—such as corruption, economic underdevelopment, and weak or nonexistent law enforcement—chronically undermine efforts to protect the rights of garment workers.

As we emphasized in our 2004 Report, the magnitude and complexity of the challenges we face are not an excuse for inaction. We recognize and embrace our responsibility to take a leadership role in improving the world's garment factories. We are constantly working to ensure that our strategy takes into account the realities of our industry and broader operating environment so that our efforts continue to drive positive change.

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 to resolve. 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 multi-lateral restrictions. Tariffs. Geographic shifts in production following expiration of quotas. Increasing expectations of consumers regarding cost and selection. 	
Gap Inc. Level of Influence	Significant Influence	Some Influence	Some Influence	Some Influence	Less Influence

A Change to Our Approval Process

In 2007, we will make a slight modification to our factory approval process to bring needed flexibility to our product pipeline. All garment factories seeking to produce internally-designed and branded apparel for Gap, Banana Republic and Old Navy will continue to receive initial inspection visits prior to the placement of any production orders. In certain narrowly-defined instances, however, garment factories that have resolved all identified major issues may be granted a one-time, conditional approval to produce a special "rush" or "chase" order, even though the factory may still have a few minor issues to resolve. It is important to note that this conditional approval will be short-term, and the factory will not be able to produce additional orders for any Gap Inc. brands until all remaining issues have been resolved to the satisfaction of the VCO.

The Art and Science of Factory Monitoring

Because there is no single standard in the apparel industry, codes of conduct, frequency and scope of monitoring, and team training all vary widely between companies. As a result, monitoring data also varies widely. In our 2004 Social Responsibility Report, we discussed some of the factors that contribute to these variations, and provided guidance on how to understand our monitoring data. For further information, please see the discussion about the "Art and Science of Factory Monitoring" on our website.

Our Team

In 2006, we continued to employ a team of more than 90 people around the world who are dedicated to improving the lives of garment workers. This team, which is truly one of our greatest assets, is wonderfully diverse, representing more than 25 nationalities and speaking as many languages. The majority of team members are Vendor Compliance Officers (VCOs), who are responsible for visiting factories, conducting inspections, documenting violations, and working with garment manufacturers and local stakeholders to improve factory compliance with our standards.

We believe strongly in the effectiveness of our team. Linked by a common passion to improve the lives of garment workers, our team members are deeply experienced. Most of our VCOs are SA8000-certified auditors, and more than two-thirds have been with Gap Inc. for three or more years. More information about our team and their day-to-day work can be found in our 2003 and 2004 Social Responsibility Reports and on our website.

Our Factory Approval Process

In 2005 and 2006, we again required manufacturers and subcontractors that produce internally-designed and branded apparel for Gap, Banana Republic and Old Navy¹ to pass through our approval process before we placed any orders. This process, which is discussed in detail on our website and in our 2003 Social Responsibility Report, can take anywhere from a week to more than a year to complete.

We evaluated slightly more new factories in 2006 than in 2005, but approved a lower percentage for production. Of the 425 new garment factories that we evaluated, we rejected 18 percent, compared with 11 percent in 2005.

While we still face many challenges with our approved factories, we know that our approval process helps screen out the worst garment manufacturers, and has a positive impact on factory compliance levels. As the chart on page 28 shows, the factories that we approved for production prior to 2006 had fewer instances of compliance violations than new factories that had not gone through our process.²

2006 Ongoing Monitoring of Approved Factories

Once a garment factory is approved, we strive to visit it at least once a year. Depending on the specific needs of a factory, we may conduct more

¹ For a helpful assessment of the strengths and weaknesses of different auditing models, please see Man-Kwun Chan, "Tackling the Growing Crisis in Ethical Trade Auditing," in BSR Weekly, Vol. 10, No. 20, June 5, 2007. A full report from the Ethical Trading Initiative (ETI) is also available at www.ethicaltrade.org/Zlib/2006/11/smart-audit/index.shtml.

² www.gapinc.com/public/SocialResponsibility/sr_fac_team.shtml
³ www.gapinc.com/public/SocialResponsibility/sr_fac_wvf_fap.shtml
⁴ www.gapinc.com/public/SocialResponsibility/sr_fac_wvf_afm.shtml

¹ All manufacturers producing for Forth & Towne were required to pass through our approval process throughout the brand's lifetime.
² Please see p. 18 of our 2004 Social Responsibility Report for comparable results from fiscal 2004.
³ Please see p. 19 of our 2004 Social Responsibility Report.

visits. In 2006, our VCOs conducted 4,316 inspections in 2,053 garment factories around the world, a decrease of about 122 inspections and 65 factories, respectively, as compared with 2005. Because our factory base was smaller, our frequency of inspections in 2006 remained about the same as in 2005. Approximately seven percent of our inspections in 2006 were conducted by teams of two or more auditors. In addition, our VCOs held 1,498 formal and informal meetings with factory managers, an increase of nearly 500 meetings over 2005. The rising prevalence of these meetings reflects our increased focus on helping factories address the root causes of compliance issues, develop effective corrective action plans and provide worker or management training sessions where needed.

In 2006, we conducted ongoing inspections in 99.4 percent of the garment factories approved for the entire fiscal year, and 93.1 percent of those approved for all or part of the year. This was an increase of approximately 0.7 percent and 4.8 percent, respectively, over 2005.

Evolving Our Monitoring Model

In 2004, we noted that the total number of our factory inspections would continue decreasing over time as we experienced ongoing consolidation of our manufacturing base and redefined our monitoring protocol.³ In 2006, we established a special internal team to examine our monitoring protocol and create a new model to focus our resources more effectively.

This team, which will deliver its final recommendation in 2007, has suggested a modified inspection model to tailor the length of our audits and the number of VCOs involved to the size of each factory and its specific needs. Once this new model is finalized, we intend to pilot it in one or two regions in 2007. Based on the results of the pilot, we hope to implement it globally by the end of the year. Going forward, we believe that this new approach will give us more time and more rigorous data to identify the root causes of compliance issues and partner more effectively with factory management and workers to resolve them.

Factory Performance in 2006

As we have noted in our past Reports, few factories, if any, are in full compliance all of the time. Our goal is to work with factory managers to fix problems where we find them and prevent them from recurring. However, some factories may be unable—or unwilling—to address compliance violations. In such cases, we may have to make the difficult decision to terminate our business relationship. In 2006, we revoked our approval of 23 factories for compliance violations, approximately 1.1 percent of our base. This is a significant decrease from the 62 factories terminated in 2005.

Although factory termination remains an important part of our program, we have increasingly come to view it as a last-resort measure. Our first choice is

always to work with factory management to resolve issues, since this is in the best interest of the workers as well as our own business needs. We have learned that when we work more closely with our sourcing colleagues and deliver a clear and consistent message as a company about the need for factories to resolve issues, factory managers are more likely to take our requirements seriously. Although this type of internal, cross-functional partnership takes time and patience, we believe that it is more effective, and efficient, in the long run to try to work with our existing factories than to terminate our relationship and shift production elsewhere.

Remediating Code Violations

We believe that it is important not just to identify compliance problems, but also to help fix them. The remediation plans that we develop in conjunction with factory management vary greatly depending on the type and severity of the issue identified. Sometimes, they may be as simple as posting information in a public place or stacking boxes in a different way. The bigger and more complex the issue, the longer it may take to resolve. For example, a factory may need to build a new facility in order to store chemicals more safely. Or it may need to provide training for supervisors to help them understand why yelling is counterproductive and an ineffective approach to management. Because we prefer to verify in person that issues have been addressed, there may also be a time delay before we are able to visit the factory again and confirm that a problem has been resolved.⁴ Although some factories may take longer to address issues than we would like, our goal is to continue working with them where reasonably possible to enable continuous improvement in their ability to resolve issues quickly and effectively.

We recognize that, sometimes, a factory may fix an issue and then experience the same problem again a few weeks or months later. In many cases, this is because the violation is a symptom of a bigger problem. For example, a factory may have repeated health and safety violations because it has no system in place to manage these issues on a regular basis. If the factory takes the appropriate steps to establish a system (such as forming a health and safety committee with clear responsibilities to identify, assess and address problems in different areas of the factory), we tend to see the number of recurring violations in a factory decrease over time.

In 2006, we piloted new guidelines to help our VCOs better analyze the root causes of recurring issues and build more effective remediation plans. In 2007, we will integrate these guidelines into our new monitoring protocol as well as our broader initiative to help factory managers take more responsibility for the conditions on their own production floors. This initiative, called the Vendor Ownership Program, not only encourages factories to establish management systems to integrate compliance into business processes, but also provides factory managers with advice on relevant

training sessions, appropriate consultants and other tools to manage compliance more effectively.

The Vendor Ownership Program complements work we have done previously, such as with Impact and the Hong Kong Productivity Council (HKPC) in China⁵ and with Tufts University in India. ■

Evaluating Factory Performance over Time

One of the most important aspects of monitoring data is that it provides us with a way to assess factory performance over time. Our factory rating tool assigns ratings based on the number and type of violations documented during inspections over a 12-month period, as well as how often the violations recurred and how long it took factory management to resolve them. Ratings range from Level 5, which indicates an excellent compliance record, to Level 1, which means that urgent attention is required to address serious compliance problems. Our website provides more detail on how these ratings are calculated. ■

As we noted in our 2003 and 2004 Social Responsibility Reports, rating factories is not easy.⁶ It requires us to quantify the relative importance and impact of different social issues. In 2006, we worked with members of the ETI to develop a common “grading” of core and non-core violations.⁷ We will continue to partner with the ETI and its members in 2007 to refine this grading system. We believe this is an important first step toward improving the comparability of monitoring data from company to company.

For a detailed breakdown of each level by region, please see page 32. In 2006, we were encouraged to see significant improvement in factory ratings in many regions around the world. In Greater China, we experienced a significant decrease in the number of the lowest-rated Level 1 factories as compared with 2005, and an increase in factories receiving the higher Level 4 and Level 5 ratings. We also saw a similar positive trend in the Sub-Saharan Africa, Europe and Mexico, Central America, and Caribbean regions. Over the past year, our compliance teams have instituted regular check-in meetings with their local sourcing colleagues to ensure that everyone has visibility into how factories are performing. In addition, our regional directors have worked closely with the sourcing teams to ensure that suppliers are receiving a clear and consistent message that compliance is a prerequisite for doing business with the company. We are pleased to see that these deepening cross-functional relationships have resulted in improved factory performance in several regions.

Freedom of Association and the Right to Collective Bargaining

One of the most challenging issues we face in our supply chain is ensuring that workers’ rights to associate freely and bargain collectively are upheld. With help from stakeholders in the labor rights community, we have begun to develop a more integrated strategy to address this complex issue with the goal of creating a better space for improved industrial relations in our supply chain.

In 2006, we partnered with the International Textile, Garment and Leather Workers’ Federation (ITGLWF), the Global Union Federation for the Apparel & Textiles Sector, to train our internal monitoring team on Freedom of Association and Collective Bargaining issues. We also worked to facilitate greater understanding and dialogue between our team members, trade unions, and suppliers at the regional and local levels. In 2006, ITGLWF representatives provided a detailed briefing for our entire social responsibility team on the theory and practice of freedom of association and how collective bargaining can secure and maintain standards in line with national law and international practice. Later in the year, we supplemented this training with joint workshops for VCO team members on the Indian subcontinent and in Southeast Asia with the ITGLWF and local trade union representatives. The goal was to strengthen stakeholder engagement between our VCOs and key worker rights representatives at regional and local levels. ■

The next phase of our strategy will address the relationship between suppliers and trade unions through national level workshops. The first workshop took place in Cambodia in February 2007. In 2005 and 2006, the Cambodian garment industry experienced a significant increase in labor strikes and disputes between factory management and trade unions. To help facilitate greater understanding on all sides, we teamed up with the ITGLWF to host a one and a half day training session for our approved Cambodian suppliers. The session brought together garment manufacturers, global and local trade union representatives, International Labor Organization (ILO) representatives, and U.S. government officials and created a forum in which everyone could raise and discuss issues of mutual concern and work toward common solutions. Initial feedback from participants has been encouraging, and we are now working to develop a set of procedures and systems to promote ongoing constructive dialogue within the factory space.

“Mature systems of industrial relations and in-company social dialogue are increasingly seen as the best ways of ensuring ongoing compliance with labor standards and boosting competitiveness. Building coalitions through bringing together compliance staff, suppliers and trade unions in countries such as Cambodia has propelled Gap Inc. to the forefront in ensuring that sustainable compliance and competitiveness are factory-grown and owned.”

—Neil Kearney
General Secretary, ITGLWF

■ www.gapinc.com/public/SocialResponsibility/sr_fac_bp_efs.shtml
■ www.gapinc.com/public/SocialResponsibility/sr_fac_wvf_ft.shtml

⁴ This is especially true in some regions, such as Greater China, where factories are often located far from major cities, and our VCOs must travel several hours each way to conduct inspections. For a detailed breakdown of geographical variation in the remediation process, please see p. 27. We will be using this data, along with other inspection data, in 2007 and 2008 to streamline our remediation process further.
⁵ Please see pp. 31-32 of our 2004 Social Responsibility Report.
⁶ Please see p. 16 of our 2003 Social Responsibility Report and pp. 24-25 of our 2004 Social Responsibility Report.
⁷ Please see pp. 12-13 of our 2003 Social Responsibility Report for more information on how we define core violations.
■ For more information on this training, please visit www.itglwf.org/DisplayDocument.aspx?darticle=15216&langue=2.

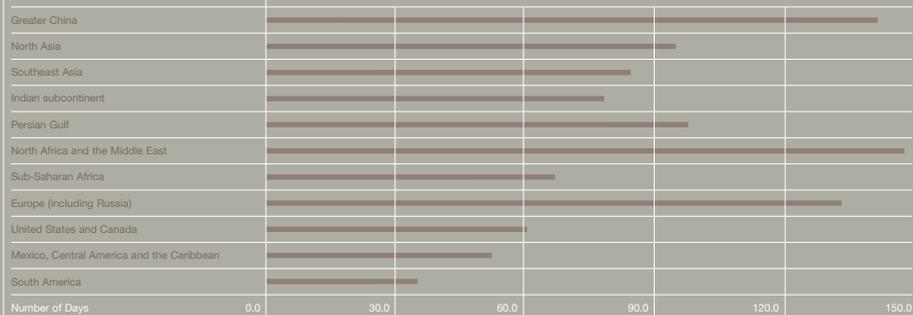
2006 Factory Approval Data

Region	Number of New Garment Factories Evaluated	Approved	Not Approved	Pending
Greater China	94	67%	22%	11%
North Asia	9	100%	0%	0%
Southeast Asia	68	70%	15%	15%
Indian subcontinent	75	73%	12%	15%
Persian Gulf	2	50%	0%	50%
North Africa and the Middle East	33	79%	21%	0%
Sub-Saharan Africa	6	33%	17%	50%
Europe (including Russia)	43	70%	28%	2%
United States and Canada	28	75%	14%	11%
Mexico, Central America and the Caribbean	47	77%	17%	6%
South America	20	70%	25%	5%
Total	425	72%	18%	10%

2006 Factory Monitoring Data

Region	Approved for part or all of fiscal 2006		Approved for all of fiscal 2006	
	Number of Garment Factories	Percentage of Factories Visited	Number of Garment Factories	Percentage of Factories Visited
Greater China	385	96.4%	267	100.0%
North Asia	75	92.0%	40	100.0%
Southeast Asia	532	93.2%	396	99.2%
Indian subcontinent	441	95.0%	280	98.9%
Persian Gulf	17	100.0%	11	100.0%
North Africa and the Middle East	64	98.4%	25	100.0%
Sub-Saharan Africa	43	90.7%	33	97.0%
Europe (including Russia)	153	86.9%	76	100.0%
United States and Canada	113	83.2%	60	98.3%
Mexico, Central America and the Caribbean	171	90.6%	87	100.0%
South America	59	94.9%	28	100.0%
Total	2,053	93.13%	1,303	99.39%

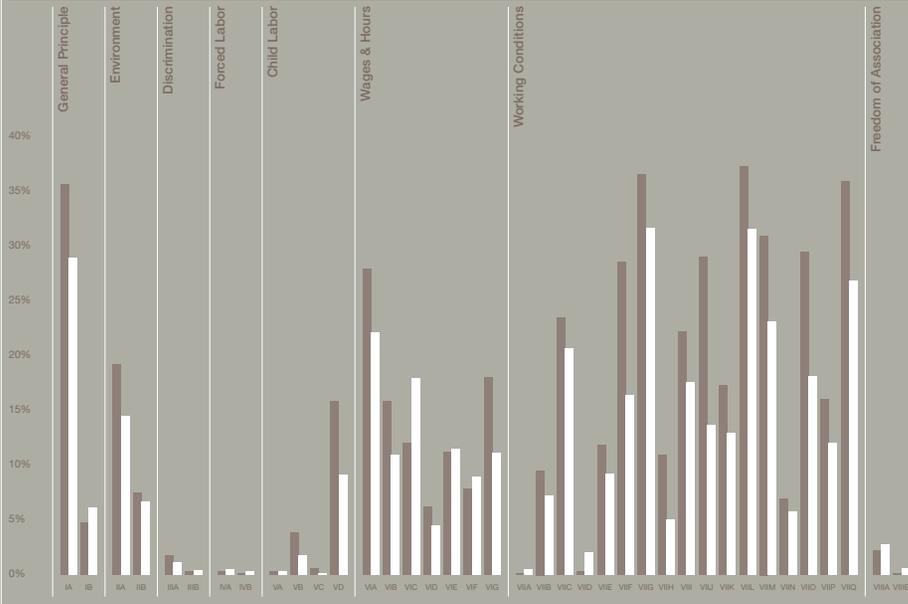
Average Number of Days to Resolve Violations in 2006



2006 Code Violations in New Factories vs. Approved Factories

■ New Factories ■ Approved Factories

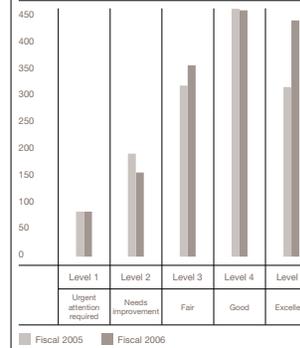
Violation Categories



For a detailed explanation of each type of violation, please see pp. 30-31.

Factory Rating Comparison Chart

Fiscal 2005 vs. 2006



We did experience an increase in the number of Level 1 factories in the Indian subcontinent region. We believe this is due, in part, to the fact that the region experienced a sudden increase in production and suppliers did not have the capacity to handle the increased workload. Our local VCO team has also been working to improve their identification of violations, so some of the increase is likely the result of better audit detection methods in that region.

At the time these reports were published, we had already begun to examine our product pipeline process. We need to maintain a diverse and efficient sourcing network to mitigate geographic risk, increase speed-to-market and deliver the wide variety of products we sell in our stores. An inefficient product pipeline can not only have a negative impact on factory working conditions, as the WWW and Oxfam reports showed, but can also result in lower product quality, slower speed-to-market and increased total cost.

Partnership with Women Working Worldwide and the Ethical Trading Initiative

In 2004 and 2005, we partnered with WWWW under the umbrella of the ETI to deepen our understanding of how our purchasing practices can impact working conditions — and how we can improve. In 2006, WWWW met with employees in our sourcing offices in India and Bangladesh as well as local factory managers and workers to research our planning and production process and assess its impact on factories. This research and its findings are a work in progress and remain unpublished. More information will be made public in 2008 after completion of this work.

“The challenges [of purchasing practices] are not unique to Gap Inc. but are industry-wide issues... This research has highlighted areas that are, quite honestly, complex issues.”

— Women Working Worldwide, 2006 research report on purchasing practices

New Social Responsibility Data System

In 2007, we will implement a new information technology system that will enhance our ability to capture and quantify social responsibility data. This new system will enable us to conduct more sophisticated analysis of our monitoring results and further refine our factory rating tool. Because the system collects data in a different manner from our current system, our 2007 data will not be fully comparable to 2006. However, we believe the benefits of the new system will strongly outweigh the challenges associated with the transition. We hope that our increased capacity to analyze and report the root causes of issues will help us evolve our approach to monitoring and capacity-building, and ultimately bring about even more tangible and long-term improvements in factory working conditions.

Evaluating Our Business Practices

As our social responsibility efforts have evolved, we've come to see that some of the everyday business practices in our industry — from decisions about where to source products, to last-minute changes to product orders, to poor production planning on the part of factories — can have a significant impact on working conditions in factories.

We've been taking a close look at our own practices to understand how we can make better decisions as a company. The more we learn, the more we believe that good business and good working conditions are linked — and we're constantly searching for new and innovative ways to improve in both areas.

Improving Our Purchasing Practices

In 2003, Women Working Worldwide (WWW), a non-governmental organization (NGO), published a research report entitled “Bridging the Gap,” that suggested that inefficient and poor decision making by apparel companies could have a negative impact on factory working conditions. In 2004, the NGO Oxfam released a report entitled “Trading Away Our Rights,” that also explored the impact of multinational companies' business practices on workers in supply chains.

WWW's preliminary report, completed in June 2006, showed that we face many of the same challenges as other apparel companies. It found that inefficient purchasing practices are endemic throughout the garment industry, and that the situation is not unique to Gap Inc. WWW praised Gap Inc. for its commitment to compliance, and the high priority we place on longer-term relationships and good communication with supplier factories.

WWW's research highlighted three main problems within our current pipeline process. The following section summarizes these findings. A more detailed overview is available on our website.

1. Delays can create situations in which factories do not have enough time to complete production orders. For example, fabric may arrive later than planned due to the use of a problematic fabric mill or bottlenecks with local transportation or customs officials. If a factory does not receive timely approval on sample garments from our San Francisco office or local labs that test for product safety, it may also have to delay the start of production, which in turn can make it difficult to complete an order on time. In addition, factories cannot finish garments until our quality assurance team has completed its final checks, and if the team is not immediately available, shipments may be delayed.

The size and scope of this chart preclude a thorough analysis of all issues identified across regions. However, the following discussion highlights some of our key findings in 2006. To compare these results with previous years, please see pp. 14-15 of our 2003 Social Responsibility Report, and pp. 22-23 of our 2004 Social Responsibility Report.

Issue-Specific Trends

Underage Labor*

In 2006, we revised our remediation policy for underage labor. Previously, if VCOs uncovered instances in which workers were below the legal minimum working age, our policy was to terminate business with the factory. We believed that this approach sent a strong message to suppliers that underage labor was wholly unacceptable. However, we have learned from our experience over the years and extensive consultations with stakeholders that such a policy of immediate termination is not necessarily in the best interest of children. Accordingly, we have revised our policy, and now require that any underage workers found in a factory be immediately removed from the workplace, given access to schooling, paid an ongoing wage and guaranteed a job at the factory as soon as they reach the appropriate age. We believe that this new approach is

not only in the best interest of underage workers, but also provides an effective deterrent to suppliers not to use underage labor in the first place.

In 2006, we uncovered two instances in China and one instance in Egypt in which workers were hired before their sixteenth birthdays, the legal minimum working age in both countries. In both the Egyptian case and one of the cases in China, the worker had already turned 16, so both remained employed, but we required both factories to strengthen their age verification policies. In the other Chinese case, we asked management to remove the underage worker from the factory floor, continue to pay her the same wage and extend an offer of re-employment on her sixteenth birthday. In this instance, the factory refused to comply, so we terminated our business.

We also uncovered a case of underage labor in Indonesia. We immediately involved the parent supplier in the situation and asked factory management to obtain permission from the worker's parents to send her to school and/or vocational training. The factory agreed to pay for her school expenses, continue paying her the minimum wage and offer her re-employment once she reached the minimum age of 15.

Forced Labor

In 2006, we discovered that two factories in Vietnam required workers to sign a contract requiring them to remain employed for a certain period of time or pay the factory a "training fee." We asked the factory to stop this practice immediately, provide contracts to workers that excluded this clause and ensure that workers were aware that they could leave at any time. We verified that the practice ceased in both factories.

In Peru, we uncovered one instance in which a supervisor retained workers' identification cards to prevent them from leaving the factory at the end of the work shift. We asked the factory management to address the situation immediately and verified that the supervisor was disciplined. In addition, the factory developed and implemented procedures to ensure that all overtime work is voluntary, and also provided specialized training to supervisors to reinforce factory policies and legal standards.

Physical Punishment

In 2006, interviews with workers conducted during a routine visit revealed that a foreign supervisor had hurled a piece of clothing at a worker during a disagreement. The factory took disciplinary action against the supervisor, which included a transfer to a different function to minimize the supervisor's contact with workers.

Freedom of Association and the Right to Collective Bargaining

In 2006, we saw a small global increase in violations related to Freedom of Association and the Right to Collective Bargaining. We continue to suspect that freedom of association issues are more widespread than we have been able to uncover. We believe this year's increase was due largely to the fact that we partnered with the International Textile Garment and Leather Workers Federation (ITGLWF) to train our regional teams to better understand and detect local freedom of association issues. While we know that we still have work to do, we believe that as our team becomes more knowledgeable about freedom of association violations in factories, they should be increasingly able to uncover and address these issues.

Regional Trends

China

Freedom of association is an especially complicated issue in the Chinese legal context. We recognize that Chinese workers, like all workers, have an important voice that needs to be heard by management in a regular and consistent way. Chinese law, however, stipulates that workers may organize only under the umbrella of the government-sponsored trade

union. We are currently working to revise our Code of Vendor Conduct to include a clause that would help facilitate lawful "parallel" means to free association in order to provide workers with the opportunity and means to raise concerns and seek solutions without fear of repercussions. In addition, we are continuing our efforts to help educate Chinese workers about their rights under Chinese law. For further details on our work, please see pp. 26-27 of our 2003 Social Responsibility Report.

Indian Subcontinent

In 2006, we identified a greater number of instances of false recordkeeping in the Indian subcontinent region than in previous years. We believe this was due to better audit detection methods, rising production levels and a greater number of new vendors. We also saw an increase in minimum wage violations in Sri Lanka and Bangladesh due to the fact that both countries increased their legal minimum wages in 2006, and factories did not adjust immediately. In Bangladesh and parts of India, we also discovered several instances in which trainee workers were not granted the permanent minimum wage in a timely fashion. In addition, we discovered cases in which piece-rate workers in Pakistan and parts of India were not receiving the appropriate

overtime wage. Finally, we also detected an increase in excessive working hours due to the significant growth in sourcing volume in the region.

Persian Gulf

Although there is no minimum wage defined by law in the Persian Gulf, factories are bound by the wages negotiated in workers' contracts. In 2006, we identified several instances in which factories did not abide by these negotiated wages and requested that they be corrected immediately.

In 2006, we also uncovered six cases in which Sri Lankan workers, recruited by local agencies to work in factories in the Gulf, were required to take contraceptive injections prior to their arrival—a violation of the discrimination clause of our COVC. We asked factory management to request that the recruitment agencies stop this practice immediately, and obtain written confirmation that the practice had ceased from the agencies and/or medical clinics that had been giving the injections on the agencies' behalf. Our VCO team also conducted interviews with workers to verify that the injections were no longer being given.

North Africa

In 2006, we experienced both an increase in sourcing volume in the North Africa region and a change in our VCO team. Due to better auditing techniques, we noticed an increase in the number of identified instances of management "coaching" of workers prior to interviews. We asked the factories to immediately cease this practice. In addition, many of the new factories that went through our approval process in this region lacked written disciplinary procedures, as required by our COVC.

South America

We saw a significant decline in health and safety violations in South America in 2006. Over the past year, our team in the region worked to educate factories on the importance of effective health and safety management systems. In many factories, our VCOs helped lead health and safety "expos" to help management and workers better understand the risks of health and safety issues, and the benefits of compliance. We were pleased to see that this work has had a significant positive impact and that health and safety conditions in the region have improved over the past year.

2006 Code Violations

Region		Greater China	North Asia	Southeast Asia	Indian subcontinent	Persian Gulf	North Africa and the Middle East	Sub-Saharan Africa	Europe (including Russia)	United States and Canada	Mexico, Central America and the Caribbean	South America
	Number of active factories for all or part of fiscal 2006	385	75	532	441	17	64	43	153	113	171	59
General Principle	IA Lacks full compliance with local laws	●	●	●	●	●	●	●	●	●	●	●
	IB Restricted access of Gap Inc. representatives	●	—	●	●	●	●	●	●	—	●	●
Environment	IIA Lack of environmental management system or plan	●	●	●	●	●	●	●	●	●	●	●
	IIIB Insufficient notification procedures in case of environmental emergency	●	●	●	●	—	—	—	●	●	—	—
Discrimination	IIIA Employment	●	—	●	—	●	—	—	—	—	—	—
	IIIB Wages and benefits	—	—	●	—	—	—	—	—	—	●	—
Forced Labor	IVA Use of involuntary labor	—	—	●	—	—	—	—	—	—	—	—
	IVB For foreign contract workers, non-payment of agency recruitment fees and/or requiring workers to remain in employment against their will	—	—	●	—	●	—	—	—	—	—	●
Child Labor*	VA Workers are not 14 years old or do not meet minimum legal age requirement	●	—	●	—	—	●	—	—	—	—	—
	VB Not in full compliance with child labor laws	●	—	●	—	—	—	—	●	—	—	●
	VC Failure to allow eligible workers to attend night classes and/or participate in educational programs	—	—	—	—	—	—	—	—	—	—	—
	VD Poor age documentation	●	—	●	●	—	—	—	—	—	—	●
Wages & Hours	VIA Pay is below minimum wage	●	●	●	●	●	●	●	●	—	●	●
	VIB Overtime rates are below legal minimum	●	●	●	●	●	●	●	●	—	●	●
	VIC Work week in excess of 60 hours	●	●	●	●	●	●	●	●	—	●	●
	VID Workers cannot refuse overtime without threat of penalty or punishment	●	●	●	●	●	●	●	●	—	●	—
	VIE Workers do not have at least 1 day off in 7	●	●	●	●	●	●	●	●	—	●	●
	VIF Violation of local laws on annual leave and/or holidays	●	●	●	●	●	●	●	●	—	—	●
	VIG Unclear wage statements	●	●	●	●	—	—	—	—	—	—	—
Working Conditions	VIIA Physical punishment or coercion	—	—	—	—	—	—	—	—	—	—	—
	VIIB Psychological coercion and/or verbal abuse	●	—	●	●	●	●	●	●	—	●	●
	VIC Violation of local laws on working conditions	●	●	●	●	●	●	●	●	—	●	●
	VID Insufficient lighting	●	●	●	●	—	—	—	—	—	—	—
	VIE Poor ventilation	●	●	●	●	—	—	—	—	—	—	—
	VIF Insufficient or poorly marked exits	●	●	●	●	●	●	●	●	—	—	●
	VIG Obstructed aisles, exits or stairwells	●	●	●	●	●	●	●	●	—	—	●
	VIIH Locked or inaccessible doors and exits	●	●	●	●	●	●	●	●	—	—	—
	VII Insufficient number of and/or inadequately maintained fire extinguishers	●	●	●	●	●	—	●	●	—	—	●
	VIIU Insufficient number of fire alarms and/or emergency lights	●	●	●	●	●	—	●	●	—	—	●
	VIIK Not enough evacuation drills	●	●	●	●	●	—	●	●	—	—	●
	VIIJ Machinery lacks some operational safety devices	●	●	●	●	●	●	●	●	—	—	●
	VIIIM Inadequate personal protective equipment	●	●	●	●	●	●	●	●	—	—	●
VIIIN Insufficient access to potable water	●	—	●	●	●	—	—	—	—	—	—	
VIIIO Inadequate first-aid kits	●	●	●	●	●	—	—	—	—	—	—	
VIIIP Unsanitary toilets and/or restricted access	●	●	●	●	●	—	—	—	—	—	—	
VIIIQ Inadequate storage of hazardous and combustible materials	●	●	●	●	●	●	●	●	—	—	—	
Freedom of Association	VIIIA Workers are not free to choose whether or not to lawfully organize and join associations	—	—	●	●	—	—	—	—	—	—	—
	VIIIB Penalization or interference with workers' lawful efforts to organize	—	—	—	—	●	—	—	—	—	●	—

* In most of the countries where we do business, the minimum legal age is 15 or higher. In the few cases where the minimum age has been set at 14, we will be working as we revise our COVC to ensure that the countries in question have fulfilled the requirements for an exception under ILO Convention 138.

2005 Factory Ratings		Percentage of Factories Per Level, by Region				
Country	Level 1 Urgent attention required	Level 2 Needs improvement	Level 3 Fair	Level 4 Good	Level 5 Excellent	
Greater China	6%	15%	27%	36%	16%	
North Asia	2%	11%	13%	34%	40%	
Southeast Asia	5%	10%	24%	36%	25%	
Indian subcontinent	5%	12%	26%	37%	20%	
Persian Gulf	0%	0%	31%	38%	31%	
North Africa and the Middle East	26%	19%	19%	23%	13%	
Sub-Saharan Africa	16%	19%	24%	27%	14%	
Europe (including Russia)	9%	27%	21%	24%	19%	
United States and Canada	0%	0%	6%	40%	54%	
Mexico, Central America and the Caribbean	8%	19%	17%	23%	33%	
South America	0%	28%	28%	28%	16%	
Global	6%	14%	23%	34%	23%	

2006 Factory Ratings		Percentage of Factories Per Level, by Region				
Country	Level 1 Urgent attention required	Level 2 Needs improvement	Level 3 Fair	Level 4 Good	Level 5 Excellent	
Greater China	1%	7%	15%	42%	35%	
North Asia	0%	4%	18%	37%	41%	
Southeast Asia	3%	12%	32%	29%	24%	
Indian subcontinent	14%	14%	30%	28%	14%	
Persian Gulf	0%	28%	36%	27%	9%	
North Africa and the Middle East	32%	11%	18%	11%	28%	
Sub-Saharan Africa	9%	16%	22%	31%	22%	
Europe (including Russia)	4%	10%	25%	30%	31%	
United States and Canada	0%	0%	6%	16%	78%	
Mexico, Central America and the Caribbean	5%	9%	17%	22%	47%	
South America	2%	5%	24%	43%	26%	
Global	5%	10%	24%	31%	30%	

2. Changes that we make to production orders—ranging from fit to aesthetic details to the way garments are packaged or shipped—can be difficult for factories to manage if they occur immediately prior to or after production has begun. Significant changes to the desired quantity of the garments may also be challenging to handle if they occur with little to no advance warning.

3. Poor production planning at the factory level can lead to quality problems, increased cost and the use of unauthorized subcontracting or temporary workers to meet production demands. Factory compliance with our Code of Vendor Conduct (COVC) can also be strained by the need for increased overtime and higher production targets, which may correlate with higher incidents of underpayment or non-payment of overtime wages.

“The pressure to accept...orders [with changes in volume], even when vendors do not have enough capacity, is overwhelming. The result is illegal subcontracting, increased use of contract workers, vastly increased overtime, no weekly holiday, night working and under- or non-payment of overtime wages.”

— Women Working Worldwide, 2006 research report on purchasing practices

Responding to WWV's Report

Our brands have responded positively to WWV's report. Toward the end of 2006, we began to implement some initial changes based on WWV's recommendations. These included the hiring of additional quality assurance staff in South Asia to address capacity constraints, a reassessment of Service Level Agreements (SLAs) between San Francisco-based and regionally-based employees, and an ongoing recalibration of our integrated supplier scorecard. ■ We're also testing mill labs in the Hong Kong region to help reduce testing lead times and piloting a faster approval policy for rush and/or chase orders. In addition, we've developed some internal educational tools, such as case studies, to help educate entry level employees on the impact of their decisions in the supply chain.

We will be continuing this work throughout 2007. We are currently developing specialized training materials that discuss the impact of our decision-making in the supply chain that will be piloted with employees in our GapKids and babyGap divisions. We will continue to refine our integrated sourcing scorecard to enhance accuracy. Finally, WWV will also continue their research in 2007 by “shadowing” San Francisco-based employees and conducting extensive interviews in our headquarter offices. We look forward to their next report.

The problems identified in WWV's report are endemic to our industry and will not be solved by a quick fix. Decision making in our supply chain is complex, and some aspects of global garment production will always be unpredictable. Nevertheless, we are committed to taking ongoing steps to

improve our performance. We've certainly learned the value of bringing in an external perspective as well as sharing the complexities of our product pipeline with our stakeholders. While we know that changing deeply-rooted behavior and long-established practices is never easy, we also know that the rewards of doing so are potentially significant. In addition to helping garment factories reduce compliance violations, we are likely to see greater business efficiencies, such as higher-quality product and faster speed-to-market, in our supply chain.

Evolving Our Processes

The competitive landscape for a company like Gap Inc. is constantly changing. Many players are vying for market share in the specialty apparel arena, and we must continuously innovate to stay competitive. For many years, we sold only Gap Inc.-designed and produced apparel in our stores. This business model not only proved successful, but also provided us with the opportunity to develop a deep expertise and leadership position in the industry. But our industry is not static. As our competitors increasingly develop new products and sourcing models, we too must seize new opportunities. In 2006, we began to explore new products and business models that would strengthen our competitive position in the industry. We opened Gap franchise stores in Malaysia and Singapore. We began selling Converse shoes in Gap stores. We announced that Banana Republic had entered into a new licensing agreement with Safilo to produce eyewear.

These new business models are extremely important to the future success of our business, but they also present new social responsibility challenges. Unlike the apparel industry, which has grappled with the concept of sweatshops for more than a decade and where codes of conduct are generally the norm, many non-apparel industries have had little experience with these issues. As a much smaller player in these industries, we also have less leverage to bring about change.

New Non-Apparel Policy

In 2005, we asked an internal, cross-functional team to grapple with this non-apparel issue and create a policy that would support our competitive need while continuing to uphold our values and principles. In an ideal world, we would simply require all factories producing our products to maintain exactly the same standard at all times. But the reality of global manufacturing is unfortunately more complicated, and we must work to improve factory labor standards in a way that still allows us to grow our business. After months of thinking about and debating these issues, our team presented its recommendations for a new non-apparel policy in early 2006.

We continue to require that all prospective non-apparel suppliers of company-branded product sign compliance agreements stating their commitment to

■ For more information on our integrated sourcing scorecard, please visit www.gapinc.com/public/SocialResponsibility/er_fac_bp_pbd.shtml, and see p. 30 of our 2004 Social Responsibility Report.

abide by our COVC, just as we do with prospective apparel suppliers. We believe this written commitment is an important first step in the continuous improvement of labor standards. The enforcement mechanism for non-apparel suppliers is then based on our business leverage. While we no longer conduct initial inspections of new non-apparel suppliers, we begin auditing as our business volume with each supplier grows — and in many cases we will audit up to a level consistent with apparel suppliers. As with apparel suppliers, we may also make the difficult decision to terminate our business relationship with a non-apparel supplier if we discover that it cannot, or will not, uphold our standards.

Building Partnerships at the Industry and Multi-stakeholder Levels

Because many of the factors contributing to poor factory working conditions are beyond our immediate control, we are working to build partnerships with other companies and stakeholders to address some of the most pressing issues at the industry level.

Toward a Uniform Code of Conduct

Today, companies and organizations throughout the apparel industry monitor factory conditions according to their own standards. The slight distinctions between these codes often complicate factory efforts to improve working conditions.

In our 2003 and 2004 Social Responsibility Reports, we stated our desire for a uniform industry code of conduct that is consistent with the standards of the International Labor Organization (ILO).¹ In 2005 and 2006, we continued to support the efforts of the Joint Initiative on Corporate Accountability and Workers' Rights (JO-IN), an alliance of six multi-stakeholder organizations, to develop a common industry code and consistent method of implementation. We remain an active participant in this initiative and believe it is one of our best opportunities to develop an industry-wide solution.²

In the meantime, we are updating our current COVC to bring it into greater alignment with the codes of Social Accountability International (SAI) and ETI. We plan to publish a revised version of our COVC in 2007.

Other Industry Collaboration Examples

Our collaboration with other companies in the apparel industry takes many forms, from national-level brand working groups to issue-specific research projects. In China, India, Turkey, Cambodia and Bangladesh, our local team members participate regularly in industry-wide meetings to discuss issues of common concern. At a global level, we

are currently exploring how we can share monitoring data with other companies to reduce duplication and audit "fatigue." Through our membership in multi-stakeholder organizations, we also collaborate with other companies and stakeholders to better understand some of the most complex industry problems. For example, we are researching the issue of homeworkers in apparel supply chains and industry purchasing practices under the umbrella of ETI's Working Groups on Homeworkers and Purchasing Practices, respectively. More information about this work is available in our 2004 Social Responsibility Report and on the ETI's website.³

Progress in Key Countries and Regions

Cambodia

In 2005 and 2006, we continued to support the ILO's Better Factories Cambodia (BFC) program. We worked closely with ILO staff on the ground, and continued to review ILO monitoring reports of Gap Inc.-approved factories regularly. We also partnered with the BFC's remediation unit to follow up with factory management on remediation plans. In the future, we plan to minimize our own monitoring in Cambodia and rely on these ILO reports so that we have more time to help factories build effective remediation plans.⁴

In light of the BFC's success, the ILO is working with the International Finance Corporation (IFC), the private sector arm of the World Bank, to launch a global Better Work Program. We are extremely supportive of the ILO's plans to build on the Cambodian experience and consider expanding this highly innovative and successful program into other countries.

Supervisory Skills Capacity Building

In 2005, we worked with the IFC and the Mekong Private Sector Development Facility (MPDF) to deliver the Supervisory Skills Capacity Building training program to 650 Cambodian and expatriate factory supervisors. The program, which recognizes the link between labor practices, productivity and factory competitiveness, sought to change the attitudes, behavior and skills of 650 supervisors in seven Gap Inc.-approved factories. These factories employ nearly 20,000 workers, of whom 18,000 are female.

The results of the training, which was completed in January 2006, exceeded our expectations. 97 percent of the participating supervisors who responded to an impact assessment survey stated that the training provided them with new knowledge on how to be more effective. Importantly, they also

¹ www.ilo.org

² For the most up-to-date information on the JO-IN initiative, please visit www.jo-in.org

³ www.ethicaltrade.org/Z/acts/exp/idx.shtml

⁴ In early 2007, the credibility of the BFC program and the integrity of ILO monitors were questioned by senior government officials in Cambodia. We continue to support the program's efforts and worked with eight other buyers to issue a joint statement expressing our full confidence in the program. This text of that statement is available at www.betterfactories.org/content/documents/Statement%20of%20support%20from%20Cambodian%20Garment%20Buyers%20(en).pdf.

reported changing their behavior: 97 percent said that they had made changes and 75 percent said that they had made significant changes. These results were echoed by Human Resources (HR) managers in all seven factories, who reported that the working environments had improved. In particular, the HR managers cited better communication between Chinese supervisors and Cambodian workers. The training also had a positive impact on employee relations and production efficiency in each of the seven factories. The chart below illustrates some of these gains.

Results from Supervisory Skills Capacity-Building Pilot Program

Employee Turnover & Absenteeism	<p>HR Managers in participating factories reported that training helped lower the employee turnover rate.</p> <p>The number of employee warnings fell an average of 12% in participating factories.</p> <p>Absenteeism across participating factories was reduced by an average of 8.6%, from 3.5% in 2004 to 3.2% in 2005.</p>
Rejection Rates	<p>The average in-line rejection and shipment rejection rates of 5.7% and 1.3%, respectively, in the participating factories were lower than in 2004.</p> <p>38% of supervisors in participating factories reported a reduction in the reject rate.</p>
Productivity	<p>Productivity growth rate in participating factories averaged 27%, an 11% increase over 2004.</p> <p>71% of trained supervisors agreed that the training helped increase productivity.</p>
Production Levels	<p>42% of participating supervisors said that the training helped increase the number of orders.</p> <p>The average production growth rate across participating factories was 12.5% higher than in 2004.</p> <p>The total number of employees in participating factories increased from 18,000 in 2004 to 25,000 in 2005.</p>

Encouraged by these results, we are now working to evolve and expand the training program. We continue to partner with the IFC/MPDF and are also collaborating with the ILO's BFC program to offer the second phase of the training program under the BFC umbrella. Participants from the first phase of training noted that the program is most effective when supported by senior management, so we are exploring the opportunity to add a senior management course as well. In addition, other brands have shown an interest in the results of the pilot phase and will be joining with us to support the program's evolution. For more information, please see the IFC's report on the program.⁵

⁵ www.ifc.org/foiaext/mekongpsdf.nsf/Content/Feature11

⁶ For historical background on our independent monitoring work in Central America, please visit www.gapinc.com/public/SocialResponsibility/sr_fac_wvf_elsaiv.shtml and pp. 20-21 of our 2003 Social Responsibility Report.

Bangladesh

In Bangladesh, we continued our work through the MFA Forum to address some of the country's most challenging issues. In 2006, the collective efforts of many participants culminated in the decision of the government of Bangladesh to raise the minimum wage for the first time in many years. This increase was approximately 80 percent over the previous wage rate. We are currently working to bring Gap Inc.-approved suppliers into compliance with these new wage provisions. As part of the MFA Forum, we are also working with other brands and retailers to explore the implementation of a common code of conduct in the Bangladesh garment industry.

We are also a member of the Multi-Stakeholder Forum Bangladesh (MFB) Steering Committee, which is developing a three-year proposal to address issues linked to productivity and social compliance. Our MFB participation provides us with an excellent opportunity to speak regularly with government officials, local trade associations, trade unions and civil society groups to encourage each to play a role in helping to improve working conditions in Bangladesh.

Factory Safety

Many factories in Bangladesh are multi-story buildings of questionable construction. In the wake of several tragic non-Gap Inc.-approved factory accidents in 2005, including collapses and factory fires, we instituted a new requirement that all approved suppliers must obtain certification from an independent authority to demonstrate that their factories are structurally sound and there is no fire hazard. We have also worked with other members of the local industry-wide working group to develop a consistent health and safety checklist for factories that includes building structure safety. In partnership with the Bangladesh University of Engineering and Technology and others, we continue to monitor this issue closely.

Central America

We remain focused on factory working conditions in Central America, both through factory monitoring and capacity-building efforts.

Independent Monitoring

We have been in discussions with independent monitoring NGOs in the region to determine how our partnerships should continue to evolve in order to address ongoing compliance challenges.⁶ As we've noted in our Social Responsibility Reports and elsewhere, the preferred approach on the ground is increasingly moving from a strict monitoring model to one that can identify root causes and build the capacity of factories to address poor working conditions in a sustainable way. We hope to continue leveraging the independent monitoring groups' expertise, independence, local knowledge,

and credibility with workers in ways that will help achieve this goal. In addition to traditional monitoring and verification, these groups are partnering with us on labor rights training for factory supervisors, verification of factory progress and remediation, and investigations into worker concerns.

Continuous Improvement in the Central American Workplace (CIMCAW)

This evolution of independent monitoring complements our investment in other multi-stakeholder efforts to build capacity in the Central American region through initiatives such as Continuous Improvement in the Central American Workplace (CIMCAW).¹ By developing training and fostering social dialogue, the project seeks to raise awareness that improved working conditions in Central America are important for the region to remain competitive in the global apparel industry.

CIMCAW is unique in its inclusiveness. Partners include key sectors concerned with labor issues at the international and national levels, including government, civil society, the private sector and trade unions. CIMCAW partners include the United States Agency for International Development (USAID), Social Accountability International (SAI), the International Textile, Garment & Leather Worker's Federation (ITGLWF), Development Alternatives Inc. (DAI) and other apparel brands.

CIMCAW Training Program (October 2004-February 2007)

Training for Workers and Managers

Country	Number of Workers and Managers	Number of Participating Factories
Dominican Republic	55	3
Guatemala	91	2
Nicaragua	162	9

Training for Labor Inspectors

Country	Number of Labor Inspectors
Dominican Republic	74
El Salvador	148
Guatemala	21
Honduras	62
Nicaragua	31

Since its launch in October 2004, CIMCAW has made significant advances in providing innovative joint worker-manager labor rights training, training government and other labor inspectors, fostering social dialogue, and promoting a vision of competitiveness based on respect for labor rights. One of CIMCAW's major achievements has been its creation of functioning Consultative Committees with representation from government, industry, and trade unions in three countries. Despite historical conflict among some of these actors, these Committees are successfully functioning to advise CIMCAW's direction and create a space to address broader industry issues. To date, 308 workers and managers and 336 labor inspectors have participated in CIMCAW's

solutions-oriented labor standards training based on ILO principles. The chart below left provides a breakdown of participants by country.

Though challenges remain, CIMCAW has helped local participants and partners move beyond historical prejudices to address challenging issues in the region in new ways, in particular, freedom of association and the right to collective bargaining. It has brought together factory owners and managers and local and international trade union representatives, and created a space where all actors have a shared interest and are free to work together without compromising the goals of their respective organizations.

We are greatly encouraged by the success of this highly innovative program, and look forward to our continued participation in 2007.

Lesotho

Lesotho has taken significant steps in recent years to improve labor standards in its garment industry. In 2006, we were pleased to see improving compliance levels in Gap Inc.-approved factories in the country, as evidenced by the significant increase in factory ratings in the region from 2005 to 2006. While we continue to face many challenges in the country, we are encouraged by Lesotho's maturing industrial relations, as well as our constructive engagement with many levels of Lesotho society, from the government and civil society organizations to trade unions and the industry association.

To help Lesotho remain competitive in the post-quota era, we are actively involved in the MFA Forum's working group on Lesotho, and continue to seek ways to help the apparel industry enhance its technical capabilities and explore opportunities for vertical integration.²

We also strongly advocated for the U.S. government to pass and enact the African Growth and Opportunities Act (AGOA), which provides trade preferences for apparel products from Lesotho and other less-developed African countries to the United States. Thanks to the passage of AGOA, more U.S. and some European companies have joined Gap Inc. in sourcing production from these countries. Through the MFA Forum, Gap Inc. is also working at various levels within the European Union to help raise Lesotho's visibility in the global apparel industry. At the recently concluded MFA Forum event in Toronto, ³ a delegation from Lesotho led by the Minister of Trade and Industry reinforced the country's commitment to strengthen Lesotho as a kingdom of "decent work" in partnership with the ILO and other participants of the MFA Forum.⁴

For more information on our work in Lesotho, including its connection to Gap (PRODUCT) RED,⁵ please see pages 79-81 of this Report.

¹ www.cimcaw.org.gt

² For historical background on our work in Lesotho, please see www.gapinc.com/public/SocialResponsibilityFor_Lesotho.shtm and see pp. 22-23 of our 2003 Social Responsibility Report. Information on the MFA Forum is available at www.mfa-forum.net.

³ For more information on the MFA Forum event in Toronto, please see Maquila Solidarity Network (MSN)'s June 2007 newsletter at <http://en.maqulasolidarity.org/sites/maqulasolidarity.org/files/0607updateFINALweb.pdf>.

⁴ For more information on the ILO's Decent Work program, please see www.ilo.org/public/english/decent.htm.

China

In 2006, China remained one of our most important sourcing markets. Last year, it represented 20 percent of our total merchandise units purchased and 19 percent of total merchandise cost. While we face many compliance challenges in the region, just as we do elsewhere, we have been encouraged by a steady improvement in factory ratings and we continue to monitor conditions closely.

We recognize our limitations as one company to drive sustainable improvements in supply chain working conditions in China. Given the country's size and importance, we are working to develop partnerships with individual stakeholders, coalitions, and multi-stakeholder forums to address issues of common concern. As we strive to build coalitions, we are also seeking to take a partnership approach with the Chinese government to encourage long-term positive change.⁹

We recognize that the capacity of local NGOs in China is limited. More training is needed for cross-sector partnerships to develop fully, and we intend to expand our capacity-building efforts in China.

As a company growing its business and looking for potential retail opportunities in China, we are encouraged by the openness shown by the National People's Congress in soliciting feedback from outside organizations and individuals during the recent revision of Chinese labor law. We welcome and look forward to this continuing dialogue.

Promoting Action and Dialogue at the Global Level

We recognize our responsibility as a large multinational company to promote action and dialogue on social responsibility issues at the international level.

Global Frameworks

We have been a signatory to the United Nations Global Compact (UNGC) since 2003 and actively support its principles and goals. We recognize the power of the United Nations to bring together the world's most influential actors, and participate in groundbreaking initiatives. To ensure an appropriate level of transparency about our own efforts, we also provide an annual communication on our progress to the UNGC.¹⁰

Through our participation in BLIHR, we are also seeking to better understand the relationship between the international frameworks on human rights and our social responsibility efforts as a business. Together with other BLIHR members,

we are working to understand how we can respect and protect human rights in our owned and operated facilities and supply chain. An initial self-assessment of our policies and practices against international human rights norms, appears on pages 16-17.

Extending Our Sphere of Influence

We also work in specific instances to address severe human rights abuses that occur in countries where we do business. In 2005 and 2006, we reached out to political officials in Mexico, the Philippines, Cambodia, and Bangladesh to protest arbitrary arrests and violence, detentions, assassinations of labor rights and trade union leaders¹¹ and loss of lives from factory fires, accidents and building collapses. We sent letters independently and in collaboration with other brands,¹² met with a variety of government officials on a one-on-one basis and also raised issues in multi-stakeholder forums. Whether we reach out as a single company or jointly with others, we hope that our actions will motivate governments to address existing problems and deter them from allowing such violations to take place in the future.

International Trade Policy

Gap Inc. has both an opportunity and a responsibility to participate in the global policy process. We believe that, at its best, free trade leads to healthy competition, innovation and better products, higher-paying jobs, new markets, and improved economic opportunities for people at all levels. We know that open trade policies are vital to our own growth and success as well as the success of our trading partners.

We support the elimination of trade barriers and believe that, wherever possible, this should be done in a way that strengthens developing countries and local communities. We recognize that trade agreements can provide significant incentives to improve labor and environmental standards. Trade agreements can also offer tangible economic benefits in emerging markets that meet basic labor and environmental norms and can reinforce efforts to improve these standards. We believe that business can and should play a role in the international trade policy process by working with governments, international organizations, NGOs and trade unions to promote incentive-based approaches to raising global labor and environmental standards.

¹⁰ www.unglobalcompact.org/CommunicatingProgress/index.html

¹¹ For more information about a specific case in Cambodia, please visit www.channelnnewsasia.com/stories/atp_asiapacific_business/view/272394/1.html.

¹² The text from our individual and joint letters to the Governor of the State of Puebla in Mexico is available at <http://en.maqulasolidarity.org/takeaction/pastcampaigns/Barrios>.

⁹ For details on our past work with the China Association of Enterprises with Foreign Investment (CAEFI) in partnership with other companies, please see p. 41 of our 2004 Social Responsibility Report.

HOW CAN
WE INSPIRE
150,000
EMPLOYEES?



Since our last Social Responsibility Report in 2004, we've made progress in improving our workplaces for more than 150,000 employees worldwide. Despite our business challenges, we instituted and enhanced initiatives aimed at making Gap Inc. a great place to work—from providing competitive health and lifestyle benefits, to encouraging open dialogue and integrating diversity into our workplace practices. We know how important these elements are in keeping our workforce engaged and in moving our business forward.

We recognize that we have more work to do, particularly in the area of employee turnover, and we're committed to making improvements.

"Gap Inc. employees are passionate about what we do...and that includes acting in a socially responsible way. It shows up across the organization in how we treat one another with respect and act with integrity."

—Eva Sage-Gavin, Executive Vice President, Gap Inc. Human Resources

Creating an Open, Inclusive Workplace

Each year we hire talented people for jobs in our stores, distribution centers and corporate locations around the world. From their first day on the job, we strive to provide employees with an open, respectful environment where they feel valued for their contributions.

We believe a strong culture starts with open dialogue, which is why we invest in employee opinion surveys and channels that promote communication.

In 2004, we piloted an employee opinion survey, which we expanded in 2005 and 2006. Over the past three years, more than 54,000 employees have participated in the surveys, providing their opinions and ideas. We learned from the survey that we've done well in three key areas: our customer focus, respect for each other, and our satisfaction in the personal accomplishments of our work. At the same time, employees told us there's room for improvement in several areas, including career development. We plan to continue surveying our employees in 2007.

We also upgraded the capabilities of our company intranet—the primary communications channel for our employees. Links throughout the intranet allow employees to ask questions or provide on-the-spot feedback. We'll ask a company leader to answer the most commonly-asked questions and then publish their answers on the intranet.

Employees also have opportunities to ask questions of our leaders directly through face-to-face meetings such as quarterly business forums and an ongoing employee discussion series hosted by senior management. These events often include a video conference and/or conference call option to accommodate employees in multiple locations.

Gender & Ethnic Breakdown of Employee Population

North America Workforce Q4 2006

	Gap Inc. North America Workforce	United States Demographics Census Data**
Female	72.4%	51%
Male	27.6%	49%
White	53.8%	73.0%
Black/African American	15.9%	12.0%
Hispanic/Latino	14.6%	5.5%
Asian/Pacific Islander	6.4%	4.0%
American Indian	0.4%	0.8%
Not specified/Unallocated*	8.9%	4.7%

* Not Specified/Unallocated: Employee chose either [Not Specified] or no option in the Ethnicity section on the Employee Profile form.
 ** Census 2000: Workforce population: age 18+. Results will vary within geographies. Does not include mixed races.

From Opinion to Action



Banana Republic's Modern Store initiative, which began rolling out to all stores in the first half of 2006, is the brand's model for organizing jobs in each store. Developed from employee feedback, Modern Store clearly defines the roles and responsibilities for all store positions, encourages career development and improves store efficiency.

In the Modern Store labor model, staff jobs are organized into three work centers: sales, sales support and "non-sell," which can include restocking and creating product displays. Each employee focuses on specific responsibilities, depending on what they are hired for.

After piloting the Modern Store labor model in April 2005, employee satisfaction improved substantially. Engagement measures in Modern Store pilot locations were up to 23 points higher than those not working with the new model. Turnover decreased five percent for the same period across the brand. Since the beginning of the pilot, 83 percent of all open leadership positions in stores with the new labor model have been filled internally.

Sales conversion in stores piloting the new initiative increased by almost three percent from April to September 2005. Sales comps were almost one percent higher for the same timeframe, translating into \$2 million of additional revenue.

Customer satisfaction survey results were also resoundingly positive, with Modern Store locations outperforming the brand overall month over month.

Underscoring all of these communication efforts is our basic promise of trust. Through our Open Door policy, any employee can ask questions, raise concerns or make suggestions to managers, supervisors or human resources representatives without fear of retaliation. Alternatively, employees can confidentially contact our Corporate Compliance department or 24-hour hotline for assistance or to report a potential violation.

Diversity and Inclusion

We continue to integrate principles of diversity into our workplace. In 2003, we established a Global Diversity Council, comprised of senior business leaders from across the company. And, in 2006, we appointed a Vice President to oversee our Diversity & Inclusion team. Today, this team works in partnership with the Council to build awareness of the value of diversity in the workplace and integrate diversity into business practices.

We currently sponsor two employee resource groups, the African-American Networking Group (AANG) and Gay Employees and Resources (GEAR) group, which are organized and managed on a volunteer basis and are open to all employees. These groups provide networking, mentoring and development opportunities, in addition to assisting diversity awareness for the entire company.

We support groups that help promote diversity in the communities where we live and work. These include INROADS (the nation's largest minority internship provider), the United Negro College Fund, the Hispanic Association of Colleges and Universities, National Association of Asian American Professionals, and Out & Equal.

We're proud of the recognition we've received for our diversity efforts. For more details, please see page 87.

Workplace Policies

Just as we hold approved garment manufacturers accountable for complying with all applicable laws and treating workers with dignity and respect, we do the same for our own employees.

Our workplace policies and training programs reflect our commitment to creating an ethical and respectful environment. We are an equal-opportunity employer. All employment decisions are made without regard to race, color, age, gender, gender identity, sexual orientation, religion, marital status, pregnancy, national origin/ancestry, citizenship, physical/mental disabilities, military status, or any other basis prohibited by law.

We also have a zero-tolerance policy with regard to discrimination or harassment. This means that we are committed to treating our customers — and each other — with integrity and respect, regardless of appearance, skin color, gender or any other such distinction.

We have absolute respect for our employees' rights, including freedom of association and the right to work in an environment free from harassment and discrimination. All new employees are required to take the Code of Business Conduct Overview module, part of a comprehensive suite of training courses called Principles of Integrity (POI), which are based on our workplace policies. In addition to providing an overview of our Code of Business Conduct policies, POI training modules help new and current managers learn how to create a positive work environment, prevent sexual harassment, and manage pay and disability issues. For more information about our Code and Principles of Integrity training, please see page 15.

Employee Recognition

We want employees to feel valued for their contributions to our business and our culture. One of the most important vehicles for this is peer-to-peer recognition. To make it easy, meaningful and fun to recognize employee accomplishments, we launched our "Applause" program in October 2005. Through the program, our employees in the United States, Canada, Japan, France and the United Kingdom can recognize each other for embodying our purpose, values and behaviors in ways that drive business results. Employees simply fill out information online or on a printed card with the name of the person they're recognizing and the action that inspired the recognition.

Through fiscal year 2006, more than 300,000 online Applause cards have been sent, 95 percent of which came from our store and distribution center employees.

In 2005, we also launched The Exceed Award, Gap Inc.'s first formal, company-wide spot bonus program, which allows managers to reward employees in real-time who demonstrate superior performance and generate results above and beyond what is expected in their role.

Our brands also have programs in place to reward the contributions of their employees at every level. These programs, which are both peer- and manager-based, recognize store employees, and include cash rewards for sales associates and certificates for outstanding store design or superior performance.

Providing Competitive Compensation and Benefits

We believe a great workplace is about rewarding our employees with competitive compensation and benefits to help them stay healthy and support their families.

Our compensation is aligned with individual, business and company performance. We regularly track and analyze the industry, local markets and other companies to ensure that we continue to attract the best employees and offer comparable rewards.

Valuing Diversity

In 2005 and 2006, we were recognized as one of the "Top 30 Companies for Executive Women" by the National Association for Female Executives (NAFE). This prestigious list measures women's representation among the highest-paid and top-tier positions at America's largest companies.

Our employee benefits program is one of our major corporate investments. In 2006, we spent nearly \$318 million on U.S. programs that are competitive with, if not better than, those of many of our peers.

Like many other companies, we are concerned about the availability and cost of health care in the United States. Last year we participated in the Affordable Health Care Solution Coalition — along with more than 50 other Fortune 500 companies — to seek affordable solutions for workers who don't currently have health insurance coverage.

As a result of our involvement in the coalition, we began providing part-time employees with access to a wide range of health care options through National Health Access beginning in July 2006. The program, which offers access to a variety of health care options ranging from discounts on medical and health care costs to major medical insurance, is available to part-time employees and their eligible spouses, same-sex domestic partners and dependents in the U.S. (excluding Hawaii and Puerto Rico) who do not have access to Gap Inc.-sponsored group health insurance. As of the end of 2006, almost 2,000 employees had enrolled.

During 2006, we also undertook an extensive review of our health care programs to find the right balance between providing valuable employee benefits while also managing our expenses for the long-term health of our organization. As a result, we'll be introducing some additional consumer-driven health care options starting in 2007. These options will have greater cost transparency and allow employees to have more control over their health care spending.

Investing in Our Growth and Development

Employee retention continues to be a challenge for us. While we've seen notable improvement in retaining sales associates and store leaders (we're doing better than industry benchmarks), employee turnover remains a concern and focus area for the company. Due in part to our current business conditions, our key retention challenges are presently in leadership and merchandising. These areas are now among the company's top priorities.

We're focused on promoting from within, encouraging our employees to grow by pursuing new opportunities within Gap Inc. Of the job openings that became available in North America during 2006, 45 percent were filled by internal candidates. This was a slight drop from 2005, when we filled 47 percent of open positions with internal candidates.

Internal hiring of executives at the Vice President level and above increased to over 60 percent in 2006 — up from 30 percent in 2003.

We believe that employees are more likely to stay at companies where they see growth potential. In 2005 and 2006, we provided 1.5 million hours of training to employees worldwide. Ranging from leadership

development for supervisors to specific training in merchandising, production and planning for employees on our product teams, the programs are designed to address critical business needs in classrooms and most importantly, on the job — where our store and corporate employees tend to learn and retain the most. These include:

- A welcome program for all newly-hired employees, providing the history of Gap Inc. and an overview of our culture.
- Leadership development programs divided into curriculums for first-time managers, mid-level managers and executives.
- Specialized brand training programs for merchant, distribution and planning teams.
- A nine-month Retail Management Program (RMP) offers recent college graduates exposure to the principal areas of our business through rotations in Merchandising, Planning, and Production as well as special projects that allow participants to directly influence the business and interact with senior management. After completing the program's on-the-job functional rotations and classroom sessions, participants have an opportunity to work full-time as an Assistant Merchandiser, Planning Analyst, or Assistant Production Manager.
- A three-week Product Team Onboarding for new employees in Merchandising, Planning, Production and Distribution includes sessions for college graduates interested in store management. Upon successful completion of the program, participants are assigned to manage an Old Navy store.
- Internships for talented undergraduate and MBA students in our headquarter offices provide challenging, hands-on retail experience in a variety of functional areas. MBA students have the opportunity to work on strategy projects for senior leaders across the organization.

Supporting Our Employees

We strive to support employees who are facing emergencies or crises by providing programs for immediate relief.

Our Paid Time Off (PTO) Donation Fund is available to employees who have exhausted their PTO but need to take paid time away because of a natural disaster, loss of residence or medical emergency. Full-time and part-time employees are eligible to

Students Name Gap Inc. an Ideal Employer

In 2006, Gap Inc. was named the most "Ideal Employer" among all retailers for students interested in careers in retail and fashion, in an annual survey by Universum. The study, which was reported in Women's Wear Daily, polled more than 37,000 students at more than 200 leading colleges and universities across the country.

2006 Employee Benefit Programs

2006 Employee Benefits*	Program Descriptions and Coverage	Eligibility	Gap Inc. Investment
Health and Wellness Benefits	<p>Benefits include:</p> <ul style="list-style-type: none"> • Medical • Dental • Vision • Health care & dependent care Flexible Spending Accounts • Life, disability, accidental death and dismemberment and business travel accident insurance <p>Wellness programs:</p> <ul style="list-style-type: none"> • 24/7 NurseLine service • Health risk assessments • Cancer care support • Employee Assistance Program (EAP) <p>Life Resources</p>	Available to all full-time employees on date of hire or change in status to full-time**	Gap Inc. pays 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.
	National Health Access	Available to part-time employees	
Financial Health	<p>GapShare 401(k) Plan: 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> <p>Employee Stock Purchase Plan (ESPP): Employees can receive a 15% discount off the fair market value of Gap Inc. stock on the day of the stock purchase.</p> <p>Tuition reimbursement: Gap Inc. employees can be reimbursed up to \$5,000 per year for approved, job-related academic courses.</p> <p>Free financial planning/counseling</p> <p>Access to home loans at reduced rates</p>	<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> <p>Regular full- and part-time employees are eligible</p> <p>Tuition reimbursement is available to all full-time employees after one year of service</p> <p>Available to all U.S. full-time employees</p> <p>Available to all U.S. full-time employees</p>	<p>In 2006, Gap Inc. contributed \$34 million in company match contributions in the GapShare 401(k) Plan.</p> <p>In 2006, Gap Inc. recorded a compensation expense of approximately \$6 million as a result of the ESPP.</p> <p>Gap Inc. paid a total of \$1.8 million for tuition reimbursement in 2006.</p>
Work-Life Balance and Lifestyle Programs	<p>Paid Time Off (PTO): One of the most generous PTO programs in the retail industry, Gap Inc. provides 20 to 35 paid days to use toward vacation, sickness or personal time, in addition to seven paid holidays per year.</p> <p>Generous merchandise discounts</p>	<p>All full-time employees begin accruing PTO and are eligible for holiday pay on date of hire</p> <p>Merchandise discounts available on date of hire</p>	<p>In 2006, Gap Inc. contributed \$126 million toward PTO.</p>
New Parent Support	<p>Adoption Assistance Reimbursement Program</p> <p>Child care support</p> <p>Healthy Pregnancy Program pre-natal risk assessment service</p> <p>Maternity leave</p> <p>Paternity/adoption leave</p> <p>Phase Out/Phase Back Program to assist new parents</p>	<p>Available to all U.S. full-time employees</p> <p>Available to full-time employees in New York and San Francisco</p> <p>Available to all U.S. full-time employees</p> <p>Available to all U.S. full-time employees</p> <p>Available to all full-time employees with 12 months of service and 1,250 hours of service prior to start date of leave</p> <p>Available to all U.S. full-time employees</p>	<p>Gap Inc. paid \$35,000 in adoption assistance in 2006.</p> <p>In 2006, Gap Inc. contributed \$565,000 to cover spaces for child care and backup care.</p>
Community Investment Benefits	<p>Gift Match: Contributions to all eligible non-profits are matched, dollar for dollar. Donations can be made as one-time gifts or via payroll deduction.</p> <p>Money for Time: For every 15 hours an employee volunteers in a calendar year with one non-profit, Gap Inc. will donate \$150.</p> <p>Board Service Match: To support the leadership offered by our executives on non-profit boards of directors, Gap Inc. will make a donation to the non-profit on whose boards our leaders serve. This is in addition to these individuals' annual gift match allocations.</p>	<p>All full- and part-time employees, worldwide</p> <p>All full- and part-time employees in North America</p> <p>Regional directors, senior directors and above</p>	<p>In 2006, Gap Inc. contributed \$2.1 million to Gift Match.</p> <p>In 2006, Gap Inc. contributed \$325,000 to Money for Time.</p> <p>In 2006, Gap Inc. contributed \$92,500 for Board Service Match.</p>

* The data in the chart above applies to U.S. only. 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 and scheduled to work at least 30 hours per week are eligible for benefits.

U.S. Workplace Safety at a Glance

	Retail Stores			All Other Locations			Total		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
	Number of Gap Inc. Employees	133,225	128,514	131,705	15,036	13,377	12,588	148,261	141,891
Workers' Compensation Claims*	2,577	1,989	1,661	318	175	261	2,893	2,164	1,922
Time Loss Claims*	502	338	261	102	67	62	604	405	323
Hours of Exposure	107,193,309	103,664,123	124,699,307	16,297,716	16,434,059	15,881,072	123,491,025	120,098,182	140,580,379
Rate of Injury per 200,000 Hours Worked	5.74	4.97	3.50	5.13	2.95	4.07	5.66	4.69	3.57
Occupational Injury-Related Fatalities	0	0	0	0	0	0	0	0	0
Experience Modification Factor**							0.55	0.81	0.75

* Claims data represent U.S. locations.
 **The Experience Modification Factor is an assigned rate that compares the number and cost of a company's Workers' Compensation claims with those of peer companies in their industry. A rating of "1.0" represents average performance for the industry. Gap Inc.'s rating of 0.75 in 2006 is lower and, therefore, better than the industry average.

apply for payments from the PTO Donation Fund, which is available through the generosity of other employees who donate a portion of their own PTO.

We also have a process administered through our Global Employee Relations department that permits employees to draw on their own PTO in a lump sum when they are facing a personal crisis.

For employees facing extreme financial hardship, we provide assistance through Individual Disaster Relief Support. Full-time and part-time employees who are having difficulty meeting basic needs for themselves and/or their immediate families may be eligible for cash allowances or gift cards.

When the tsunami in Asia and Hurricanes Katrina and Rita in the United States struck, we supported the recovery of our colleagues from those devastating disasters, providing impacted employees with everything from financial and relocation assistance to crisis counseling. Our Large-Scale Disaster Relief Support programs are based on the extent of the disaster, and may include allowances for home, food, housing and clothing. We also offered a PTO Donation Fund payout, continued pay for employees unable to work due to a building closure or quarantine, job relocation, housing assistance/relocation, and employee assistance program support.

Workplace Safety and Health

We know how important it is to ensure the safety of our employees in all of our locations, from distribution centers to stores to headquarter offices. Since 1999, on-the-job physical injuries to employees have decreased by 75 percent. Our 2006 injury frequency/severity rates are more than 50 percent below the warehouse and distribution industry rates.

In addition to instituting an injury and illness prevention plan, our core health and safety initiatives and programs include:

- Three separate auditing processes to identify opportunities to reduce injury probability/severity.
- Monthly safety education for leaders and employees that focuses on injury prevention/avoidance and Occupational Safety and Health Agency (OSHA) compliance. Distribution center jobs incorporate time for safety education to ensure that employees receive the required information they need to work safely.
- Safety training that covers everything from emergency response/evacuation and use of personal protective equipment.
- Regional Disaster Recovery Guides to ensure that managers know how to respond quickly to a variety of health and safety issues that may result from a natural disaster.

Our workplace health and safety programs are designed to ensure that our facilities are safe for our employees and our customers. We optimize air quality inside our facilities and routinely use low-emitting building materials such as low-volatile organic compound paints. We also have a program in place to prevent mold from becoming a problem in our facilities and stores. Following Hurricane Katrina, we were quick to respond to mold remediation in our stores to ensure the health of our employees and customers.

HOW HAVE YOU HAD AN IMPACT ON GAP INC.'S SOCIAL RESPONSIBILITY EFFORTS THROUGH YOUR JOB?

"I go home every day knowing I made a real difference simply by doing what I love. It's so amazing how something so simple can have such an enormous and profound effect on the world. That's the magic about (PRODUCT) RED."

Lily Nguyen
Sales Lead, Gap



"We approach projects keeping in mind both Gap business goals and how our work can have a positive impact on the world around us. With this perspective, we're exploring ways to change the composition of Gap's price tickets to 100 percent post-consumer waste recycled paper."

John Hodges
Associate Manager,
Global Sourcing and Packaging, Gap
Jorge Perez-Olmo
Senior Global Marketing Sourcing Manager, Gap



"As a volunteer at Abilities, Inc., I use the skills and experiences I've gained as a Gap associate store manager to help provide job training and coaching to people with disabilities so that they can transition into the workforce. The time and cash grant from winning the Founders' Award will allow me to help update the retail training program and help more people enter the job market and achieve their goals."

Constantina Petalides-Markou
Associate Manager, Gap
2006 Gap Inc. Founders' Award Winner



"The creative options that emerge from embracing sustainable fibers — blends of silk and soy, hemp, organic cotton that is naturally colored, green cotton that is soft and safe with no chemical finishes, organic wool — are exciting, and we have the opportunity to make a statement of respecting the environment with the appeal of our natural heritage and sophisticated styles."

Damaris Botwick
Director of Textile Development,
Banana Republic

"In my role, I source for factories that can deliver great and timely products. In my ten years of experience, I see factory operations and social responsibility connected in a circle. Factory management who invest in people and treat their workers well and with respect tend to gain in higher efficiency and product quality, which allows them to grow the business and in return allows the management to continue doing more for their people."

Leng Leng Lee
Senior Director,
Sourcing & Vendor Development,
Gap Inc.



"We're constantly evaluating new business opportunities that will yield a sustained profit over time and that will inspire our employees to be innovative and creative. New brand concepts, new partnerships or new sub-brands, like Gap (PRODUCT) RED," have proven to be incubators for successful ideas that can scale to the rest of our business. When we can integrate our foundation of social responsibility into new and exciting business opportunities, it's a win-win situation."

Art Peck
Executive Vice President,
Corporate Strategy and
Business Development, Gap Inc.



CAN
PROTECTING
THE
ENVIRONMENT
**BE GOOD
FOR BUSINESS?**



Our business operations rely on our planet's natural resources. We believe that our success should not come at the expense of the environment, so we strive to operate in a way that is mindful of long-term environmental sustainability.

Whether we're saving costs by reducing energy consumption or creating products through innovative, sustainable design, we believe that reducing our impact on the environment can also result in positive business benefits.

Through a careful analysis conducted with environmental consultancy CH2M HILL, and our materiality analysis with SustainAbility (see page 14), we examined the environmental challenges that our company faces and analyzed the potential impact to our business. We considered the areas over which we have the most control and influence, and assessed the level of societal concern for each. Our environmental strategy is focused on three key areas where we believe our work can have the greatest positive impact: Energy conservation, Cotton/sustainable design, and Output/waste reduction (ECO).

Energy Conservation

With operations in more than 50 countries, we are acutely aware of the world's environmental challenges, in particular, global climate change. We are working to understand how the implications of climate change may impact our business and to reduce our own negative contributions.

According to The Intergovernmental Panel on Climate Change, "Continued greenhouse gas emissions at or above current rates would cause further warming and induce many changes in the global climate system during the 21st century that would very likely be larger than those observed during the 20th century."¹⁰

Businesses are beginning to respond to the adverse effects of climate change. GE's bold Ecomagination initiative includes a commitment to reduce the company's greenhouse gas emissions and to improve energy efficiency across its operations. Through its Virgin Fuels branch, The Virgin Group will invest \$400 million in renewable energy projects worldwide through 2009. Hybrid cars, like the Toyota Prius, are viable alternatives to conventional vehicles that run solely on petroleum-based fossil fuels.

We believe that businesses must take immediate action to address climate change. We are committed to reducing our own greenhouse gas emissions, primarily through energy conservation efforts. In our 2003 Social Responsibility Report, we noted that we had joined the U.S. Environmental Protection Agency's Climate Leaders program and pledged to reduce our U.S. greenhouse gas emissions by 11 percent per square foot from 2003 to 2008. As illustrated in the chart on page 58, energy use in our U.S. stores has decreased 8.7 percent between 2003 and 2006.

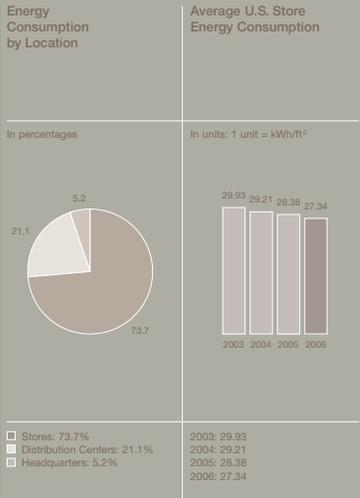
¹⁰ IPCC WGI Fourth Assessment Report. Summary for Policymakers. "Climate Change 2007: The Physical Science Basis" (5 February 2007) p. 13.

Our Impact on the Environment

	Influence			Direct Control		Weak/No Control
Inputs	Water, pesticides, fertilizers, dyes, energy	Fuel, water, chemicals	Fuel, corrugate, plastic	Energy, wood, other construction materials	Energy, corrugate, plastic	Energy, water, dry cleaning chemicals
Process	Raw Materials and Textile Production	Garment Production	Transportation of Goods	Store and Facility Construction	Store Operations (including packaging)	Consumer Use and Disposal
Outputs	Emissions, waste, runoff (wastewater)	Emissions, waste, wastewater	Emissions, waste, wastewater	Emissions, waste	Emissions, waste	Emissions, waste

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

Energy Conservation



While we are pleased to see this reduction in our stores, we know that we have more opportunity to improve. We assessed our energy consumption to better understand where our efforts could have the most significant impact and where we should focus our attention. We learned that our fleet of stores is responsible for approximately 73.7 percent of our total energy consumption, our distribution center campuses are responsible for roughly 21.1 percent and our headquarter offices account for about 5.2 percent.

Stores

Since the majority of our energy consumption occurs at the store level, we introduced a number of initiatives in 2005 and 2006 to conserve energy in our U.S. stores. In our Gap, Banana Republic and Gap Inc. Outlet divisions, we offered energy management training at store managers' conferences. These sessions sought to build awareness of our commitment to reduce energy and to reinforce, where applicable, proper usage of the computerized Energy Management System (EMS) to control lighting, heating, ventilation and air conditioning.

In 2006, Old Navy also introduced its Time to Shine program, an online resource that provides Old Navy stores with pertinent information regarding facilities and operations. Included in this resource are specific practices and examples of how Old Navy stores can conserve energy, such as ensuring that all temperature sensors remain unblocked.

Concurrently, in our U.S. Gap, Banana Republic, Old Navy and Gap Inc. Outlet divisions, we introduced a pilot program to examine how the computerized EMS located in each of our stores can more effectively manage our energy consumption, while still allowing store managers flexibility to customize the lighting, heating, ventilation and air conditioning in their stores. This pilot program includes examining approximately 30 stores per division and aims to determine which elements of the EMS should be controlled centrally and which should remain under store managers' control. We expect this exploration process to continue throughout 2007.

Distribution Centers

We are also looking at ways to reduce energy usage at our distribution center campuses. In 2006, we changed the lighting at our Fishkill, N.Y. and Fresno, Calif. campuses. Through this effort, we replaced approximately 7,500 light fixtures with T8 fluorescent fixtures, which use approximately half the energy while providing the same level of lighting. We estimate the new light fixtures will save us \$947,000 annually. In 2007, we will retrofit our distribution center campuses in Gallatin, Tenn. and Brampton, Ontario.

Renewable Energy

When it launched in 2005, our Forth & Towne brand made a commitment to support renewable energy. During the brand's lifetime, its purchase of renewable energy certificates—which represent the environmental attributes of power produced from renewable energy sources but are sold separately from commodity electricity—offset 50 percent of its energy consumption and prevented the emission of more than 502 tons of greenhouse gasses, the equivalent of removing 108 cars from U.S. roadways each year. Consistent with our desire to work with vendors who share our values, these certificates supported a wind farm that reserves a portion of its proceeds to support orphanages in Southeast Asia.

Cotton/Sustainable Design

Most of our clothes are made of cotton, a crop that can have significant environmental impact. Although cotton covers only 2.4 percent of the planet's arable land, 11 percent of global pesticide sales and 24 percent of global insecticide sales go into cotton production. In 2005, we joined the Better Cotton Initiative (BCI) to help address the environmental impact of cotton farming. This collaborative, multi-stakeholder effort was started by the World Wildlife Fund (WWF) and aims to address not only the environmental impacts of global cotton cultivation practices, but social and economic impacts as well.

Other groups involved in the early stages of launching this effort include the Interchurch Organization for Development Co-operation, Oxfam, Organic Exchange, and a range of other well-known brands and retailers.

One increasingly popular alternative to conventionally-farmed cotton is organic cotton, which is grown without the use of synthetic pesticides and fertilizers that can be harmful to the environment. Our brands have begun to explore the use of organic cotton for some product offerings. In February 2007, select Gap stores introduced men's t-shirts and tanks made with 100 percent organic cotton. To preserve the natural colors and qualities of the organic cotton, these products are not chemically dyed or bleached. Our Gap stores in the United Kingdom and France will be launching additional organic cotton products in 2007.

Beyond Cotton

Our textile design team is always looking for interesting fabrics that will distinguish a garment and make it special. By exploring fabrics made of materials other than conventionally-grown cotton, the team can create products that are fashionable and environmentally friendly at the same time.

For example, in the summer of 2006, Banana Republic offered a skirt made of a hemp/silk blend that produced a soft, satin-like fabrication. Not

Output/Waste Reduction



AA www.panda.org/about_wwf/where_we_work/asia_pacific/where/pakistan/projects/index.cfm?ProjectID=8W0011
 BB www.bettercotton.org

only did our customers respond well to the skirt, it was also good for the environment, since hemp is a natural fiber that requires few pesticides and fertilizers to grow.

Output/Waste Reduction

The U.S. Census Bureau estimates that the global population will grow from 6.6 billion in 2007 to more than 9.4 billion in 2050. This rapid expansion will put a strain on our natural resources and society's ability to absorb waste.

We know that through our daily business operations — from shipping garments in protective plastic wrap and boxes from factory to store, to printing documents in our headquarter offices — Gap Inc. is responsible for creating waste. We are committed to reducing the amount of waste we produce and decreasing our consumption of natural resources.

A number of our environmental initiatives are focused on reusing and/or reducing the waste that we produce as a company, and encouraging our suppliers to be mindful of their own waste streams.

Waste and Recycling

In 2005 and 2006 we continued our solid waste and recycling programs at our stores, distribution centers and headquarter offices. The charts on page 58 illustrate progress on key initiatives.

At our headquarters, we also continued to divert compostable waste from landfills. Through this program, we divert an average of 113 tons of waste annually.

Stores

Much of our waste stream comes from our fleet of more than 3,100 stores worldwide. While we are committed to reducing the amount of waste from our stores, waste management at the store level continues to be a challenge for us. A third-party waste management company hauls waste from approximately 67 percent of our stores. We have most control over waste and recycling from this portion of our fleet, thanks to our direct relationship with these third-party waste management companies. Waste from the other 33 percent is hauled by companies that contract with the landlords or developers who manage the shopping structures in which our stores are located. In these cases, we do not have a direct relationship with the waste management companies that haul our waste. Furthermore, many of these shopping structures do not have the infrastructure to separate recyclable materials from waste. We are currently working to develop a program to engage landlords and developers on this issue. Our hope is that we can partner with landlords and developers to build the necessary infrastructure to facilitate recycling at the store level.

In the meantime, we look for creative ways to divert waste from landfills wherever possible. For example, Old Navy store decorations during the 2006 holiday

season consisted of artificial Christmas trees, artificial pine garlands and decorative snowflakes. The Old Navy marketing team did not want to simply throw these decorations away, so they worked with the organization Gifts in Kind to reuse them. Gifts in Kind identified approximately 750 local charities across the United States and Canada that had use for these decorations, and we were able to match each charity with a local store to donate our holiday decorations. Through this effort, we diverted approximately 102,500 pounds of artificial trees and 150,500 feet of garland from landfills and gave the decorations to charities for their use and enjoyment.

National Recovery Center

Our National Recovery Center (NRC) in Kentucky receives defective and unsold garments and donates product that is still usable. For clothing that is too damaged to donate, we have partnered with Special Waste Systems, Inc. to turn damaged or defective clothing into rags for use at hospitals, or as furniture stuffing or insulation. The NRC also receives defective mannequins which are shredded and converted into pellets that can be used in place of sandblasting materials.

In 2006, the NRC began working on an initiative designed to convert materials classified as hazardous waste into a usable resource. Working with an organization called Parallel Products, we began converting waste perfume (considered a hazardous material because of its flammability) into ethanol. Oil and gas companies purchase the recycled ethanol and add it to automobile gasoline to help meet clean air standards.

Supply Chain

We have less control over operations in our merchandise and non-merchandise supply chains than in the facilities we own and operate. But we strongly encourage our business partners to be mindful of their waste streams and use of natural raw materials.

Wastewater Quality. In our 2004 Social Responsibility Report, we noted that our denim products go through an extensive dyeing and treatment process that often involves chemicals in order to create the washes and rinses our customers desire. If left untreated, wastewater discharged from these denim laundries can impact the water system in the communities where the laundries operate.

To address this issue, we implemented a water quality program for all denim laundry facilities that handle our products. We also partnered with CH2M HILL to develop a program that measures denim laundries' effluent against Business for Social Responsibility's (BSR) Water Quality Guidelines. [If a facility's effluent fails to meet BSR's strict standards, we prescribe corrective action steps to help it come into compliance.](#)

As mentioned in our 2004 Report, we began a pilot program in 2004 with 20 laundry facilities. Since then, we have expanded the program in two

additional phases so that all of the denim laundry facilities we work with have gone through the program. The table below outlines results from each phase of the program.

Denim Laundry Wastewater Program

	Number of Denim Laundries*	Pass	Fail
Pilot (2004)	18	14	4
Phase 1 (2005)	41	22	19
Phase 2 (2006)	90	44	46
Total	149	80	69

* These numbers differ from earlier reported numbers because we stopped doing business with some denim laundries during the course of the program.

For those laundries that failed to meet our standards in the Pilot and in Phase 1, we have prescribed corrective action plans. Twenty-two of these facilities have completed remediation and are in compliance. We are continuing our work with one facility to bring it into compliance.

In early 2007, we communicated our expectations to the 46 facilities in Phase 2 that did not meet our standards. We are working with them on corrective action plans to help bring them into compliance by the end of 2007.

We will launch a second round of wastewater testing for denim laundries during the summer of 2007. All denim laundry facilities we work with will again test wastewater effluent. We will test for the six quality standards that are most commonly regulated

by local, national and international standards: pH, total suspended solids, biochemical oxygen demand (BOD), chemical oxygen demand (COD), color and temperature.

As mentioned in our 2004 Report, municipal or publicly-owned water treatment facilities in some countries remain a challenge for us. Our work with the BSR Apparel Water Quality Working Group continues to explore ways to address this issue.

Environmental Procurement Guidelines. For our non-merchandise suppliers, we incorporated environmental procurement guidelines into our Request for Proposal (RFP) process in 2006. These guidelines inform our suppliers of our company's preferred environmental attributes for non-merchandise materials. For example, we prefer to use paper with recycled fiber content and unbleached, process chlorine-free pulp. As a result, much of the paper and corrugate we purchase directly has a minimum post-consumer recycled content of 15 percent, and some has post-consumer recycled content as high as 68 percent.

We are also looking into ways to increase partnerships with non-merchandise suppliers to increase the environmentally-friendly attributes of items such as price tags, shopping bags and other garment packaging materials. For example, we are currently working with paper mills to explore ways to increase the amount of recycled post-consumer waste pulp used to create Gap's price tags. We will continue to explore opportunities throughout 2007, and hope to introduce additional environmentally-friendly packaging options in the future.



HOW DO
WE CREATE
POSSIBILITIES
IN OUR
COMMUNITIES?



The world of philanthropy is changing in significant and exciting ways. It's becoming increasingly global and strategic, and calls for greater collaboration among organizations. What's more, philanthropy is being influenced by business, as non-profits increasingly adopt business practices and companies make deeper commitments to the community.

In this evolving landscape, we recognized that we also needed to change. In 2006, we re-examined our purpose and established a new course. This new direction stemmed from a shift in our thinking from being a social funder to a social investor. Put simply, we're being creative and strategic about how our core business can support our goals around social change. And we're developing a new business model to help ensure the sustainability of our community commitments and the change we're trying to create.

Our Community Investment Vision and Strategy

Gap Foundation's vision is to create opportunities for people to fulfill their personal promise. We call it "Be What's Possible." In underserved communities worldwide, we want to help people change the course of their lives and take personal ownership of their future and their potential.

As a global retailer, we believe it's important to work in communities where we do business and we recognize the need to take a focused approach

to have long-term impact. To achieve this, we're emphasizing two key target groups and causes. In developed countries, we focus on underserved youth, and our cause is career exploration and job readiness education. In the developing world, our target is women, and our cause is work and life skills education to help women advance and break the cycle of poverty.

Because we want to make a deep and lasting impact, we think beyond our capacity to write checks to non-profits. We believe our greatest opportunity to bring about social change is to leverage our corporate assets—our brands, our stores, our vendor relationships, and most importantly, our employees. In fact, we believe our employees are our biggest community asset. With 150,000 employees around the world with a host of professional skills, we see enormous potential for them to make a difference through their talents and passion for volunteering.

Finally, we believe that to sustain our efforts as social investors, we need to ensure that all stakeholders in our community benefit from our work. This "Virtuous Cycle" includes the neighborhoods and non-profits we serve as well as our employees, customers and shareholders. Not only can our work help build stronger communities, it engages our employees and attracts both consumers and investors. We see this collective benefit as the best way to create sustainable social change.



Providing Unique Volunteer Opportunities



* We believe that the decrease in employee contributions in 2006 was due to the unusually high rate of contributions in 2005 as a result of several natural disasters.

Glide Memorial Church



Glide is located in and serves the Tenderloin neighborhood, home to many of San Francisco's homeless population, shelters and low-income weekly-rate hotels. The Tenderloin has the highest concentration of poverty in San Francisco and is the city's most densely populated neighborhood.

Glide's network of services range from free meals programs to GED and high school diploma classes. In 2005, Glide programs served approximately 7,400 individuals and 726,000 meals (excluding holidays).

Since 1982 Glide has distributed grocery bags of food to families in its community during the holiday season. In 2006, through funding and volunteer support, Gap Inc. and our employees partnered with Glide to distribute over 5,000 bags each containing enough food to feed a family of four.

Volunteers are a major part of the services that Glide provides and many programs could not operate without volunteers.

Last year 6,826 volunteers worked in Glide programs providing over 71,000 hours to 16 programs, two special events and four holiday events. Gap Inc. also supports Glide's general volunteer program to ensure they are able to continue to recruit and retain the many volunteers that help keep their community service programs up and running.

MAS Go Beyond: Empowering Women in Sri Lanka



In 2005, MAS Holdings Ltd.'s Go Beyond program received international recognition by winning the 2005 American Apparel & Footwear Association award for Excellence in Social Responsibility Women's Issues. In 2006, the program was recognized by The Global Compact Asia as a Best Practice in the manufacturing sector.

With over 85 percent of its 35,000-plus workforce consisting of women, MAS is especially committed to recognizing and rewarding women employees who have demonstrated a will to develop and excel within the workplace and beyond. The Go Beyond program supports women employees through:

- Career Advancement—programs to help all employees advance in their careers
- Work Life Balance Programs—to encourage women to develop other interests and talents
- Rewarding Excellence—annual awards

In 2005, Gap Inc. partnered with MAS to develop the Gap Inc. "Women in the Community—Go Beyond" Program, modeled after the award-winning program.

The Gap Inc. program is an initiative to champion the empowerment of women in the communities in which MAS has manufacturing units. The primary focus is to motivate women in the target age group of 18-40 years by supporting and rewarding them for their exceptional self-empowerment and achievement. The program has two major components:

• Supporting Women Entrepreneurs—by identifying women entrepreneurs in the community who have overcome obstacles in their lives, the program offers support through the development of their skills and learning to provide an opportunity for strengthening their enterprises.

• Academic Achievement—supporting exceptional academic achievement through the issuance of student scholarships for youth in the community whose only obstacle to higher learning is the lack of financial resources.

To create and raise awareness of the concept and practice of sustainable development, the program includes an outreach component to local schools. The school program focuses on educating and training youth on sustainable development and entrepreneurship. Connections between youth and women entrepreneurs will also be made to ensure a developing community.

Our Target Causes

Youth in the Developed World

Many of today's youth are not prepared for the future, with only three-fourths graduating from high school and two-thirds going on to college. Many will be unable to secure jobs and make a successful transition to adulthood. This trend hurts individuals, along with our economy, social services and competitiveness.

Many young people from less advantaged neighborhoods simply lack the opportunities of the more affluent. Our goal is to help change this disparity. We want to give youth the chance to explore career opportunities, learn job readiness skills, and in some cases, receive paid internships.

We support many organizations and initiatives that share our emphasis on reaching youth, ranging from the Big Brothers Big Sisters to Larkin Street Youth Services to Harlem Children's Zone. One of our key partnerships is with the Boys and Girls Club of America; since 2002 Gap Foundation has been the sole funder of Career Launch, a national career exploration and job readiness program.¹¹ We provide a job shadowing day for Boys and Girls Club members called Camp Old Navy, which brings teens into our stores for an introduction to the work world and leverages the talent and insights of our employees to inspire young people across North America.

In 2007, we embarked on two signature programs that exemplify our efforts to truly engage our corporate assets in the community. This Way Ahead is a youth program that launched as a pilot in New York City in March 2007. We've partnered with two longstanding New York City organizations, The Door and Good Shepherd Services, which provide young people with everything from health services to legal advice to job readiness programs. Together we've designed a new approach to providing practical work skills training. Some of our core business assets are bringing this program to life—course materials were written by volunteers from our Learning & Development department, and our store leadership volunteers do the teaching. In addition, youth who receive paid internships will be hosted by our Gap and Old Navy stores.

Our goal is to successfully pilot this program, further develop it, and expand to additional cities in North America and the UK over the next several years.

Women in the Developing World

As a company whose workforce is over 70 percent women and a consumer base that is over 60 percent women, we know that women are important to us. We also know that in many parts of the developing world, a lack of opportunity and autonomy keeps many women from advancing in work and life. The well-being of women has an impact not just

on them, but on their children and entire communities. We believe that access to education is crucial in giving women the chance to change their lives.

Gap Inc. has invested in a variety of programs to support scholarships and career advancement for women in the developing world. These efforts also benefit our company, leading to a more educated community of women who enrich our vendor resources.

We've focused our second signature program on women in the developing world, where we see similar potential to use our corporate assets in support of sustainable social change. The program, called P.A.C.E. (Personal Advancement, Career Enhancement), is being developed in partnership with the International Center for Research on Women (ICRW). P.A.C.E. takes a comprehensive approach, offering education in such critical areas as health care and legal rights, as well as leadership and job training so that women can move into management positions.

With the support of our partners, which include a local NGO and one of our vendors, Shahi Export House, the P.A.C.E. program launched in Bangalore, India in June 2007. We believe that this unique collaboration benefits all partners and as a result will be sustainable long term.

Our pilot will expand to Delhi, India later in 2007 and then into China, Cambodia, and Turkey in upcoming years.

"We believe that leveraging our company assets is the way to make a bigger positive impact on our community."

—Bobbi Silten,
Chief Foundation Officer, Gap Inc.

Our Grant Making Strategy

We aim to be global social investors, committing money, time and resources to the communities where we do business. When it comes to making grants, we work closely with our community partners to forge a strategy that will add real value to programs and services and inspire our partners, employees, and the community.

We continue to invest in a range of projects in the places where we do business, from a neighborhood in New York City to a village in Southeast Asia. In the past five years, we have distributed about \$60 million in grants worldwide to such programs as:

- The Boys and Girls Club of America's Career Launch, a national career exploration and job readiness program.
- Sri Lankan community groups dedicated to helping women rebuild lost businesses after the tsunami.

¹¹ The National Center for Education Statistics. www.nces.ed.gov

¹¹ For more information, please see p. 38 of our 2003 Social Responsibility Report.

• Harlem Children's Zone's Employment and Technology Center, a youth program focused on education and employment.

As we move forward, our strategy is to create an even deeper social impact by focusing on fewer grantees and emphasizing grants aligned with our target causes. In 2006, \$4.3 million (or 60 percent) of our grants were aligned with our new target causes. In 2007, more than 70 percent of our grants will be to programs in these areas.

Employee Engagement

"You're making an impact, and that stays with you for a really long time. The thank-you notes are unbelievable, but I say to people, 'You've changed me and how I think.'"

— Deb Leichsenring,
District Manager for Old Navy in Des Moines, Iowa

Volunteering is intrinsic to our values as a company, and we emphasize collaborating with the communities where we do business. Our employees tell us that volunteering offers them the chance to help in their communities — and to develop their own potential, both personal and professional. One of our primary roles is to make volunteering easy, and we offer support in three main areas: money, time and recognition.

We believe that any amount of volunteering can have an impact, and we recognize how hard it is to find extra time. We support our employees in taking on whatever's possible for them by running many programs to make it easy to volunteer in areas they feel passionate about.

In 2006, our employees devoted more than 200,000 hours to a wide variety of projects and contributed more than \$2.6 million to non-profits. Some program and project highlights include:

Employee Gift Match: We match financial contributions dollar-for-dollar (and doubled our matching after the Southeast Asian tsunami and Hurricane Katrina) and make a \$150 grant to non-profits where employees spend 15 hours of time. In late 2006 we launched Gap Global Giving, providing all our employees worldwide with the opportunity to have Gap Inc. match their contributions.

Board Service Grants: To support leaders of our company who sit on a non-profit board, Gap Inc. awards that organization a significant annual grant.

Field Team Grants: To localize our impact, we now offer \$250 grants to non-profits when teams of three or more employees from our stores volunteer in support of underserved youth or women.

In Action Days: We organize several days a year devoted to volunteering. In 2005, 2,000 San Francisco Bay Area employees contributed more than 8,000 hours of time. In 2006 our participation jumped to a new level, involving over 2,900 employees who contributed more than 11,000 hours of time.

Community Leaders: Participating stores (approximately 1,100 in 2006) designate one employee to organize volunteer projects that focus on the local

community. Headquarter offices also have over 150 designated Community Leaders for volunteer efforts.

AIDS Walks: Every year, Gap Inc. is a major sponsor for the New York, San Francisco and Canada AIDS Walks, which draw significant employee participation.

Camp Old Navy: Every year we bring youth into more than 350 of our stores to spend a day learning about the world of work.

Holiday Adopt-a-Family: Our stores and employees support thousands of families each year throughout North America.

Special Events

Employees donated over \$600,000 to disaster relief organizations in 2005, and Gap Inc. contributed \$3.3 million, for a total of \$3.9 million. Adding related expenses and contributions from Old Navy Field Trip 4 Fun, the total value of the disaster relief donation in 2005 was \$7.3 million. The Foundation also continued to provide rebuilding support for tsunami victims.

Old Navy Field Trip 4 Fun: Hurricane Katrina and Rita Relief Efforts

After Hurricanes Katrina and Rita in 2005, Gap Inc. created Old Navy's Field Trip 4 Fun to provide assistance to those hit hardest by the devastation — kids.

Ten cities, eight states and countless smiles later, the program made a difference in the lives of displaced children. Nearly 15,000 kids were invited to attend 65 events, pick out \$100 worth of new clothes and participate in a fun in-store experience. More than 500 employees volunteered thousands of hours to host events in 34 Old Navy stores. In addition, employees donated 18,000 of their own paid time off hours to assist colleagues from the devastated areas who were in need of extra time off. Combined with the company's gift matching, employees donated more than \$5 million in cash and clothing to relief efforts.

Additional Tsunami Support

In 2005, Gap Inc. provided \$190,000 in funding to Habitat for Humanity International for the building and repair of more than 150 homes in Sri Lanka. The majority were in the area directly impacted by the Southeast Asia tsunami.

In addition, Gap Inc. provided funding to rebuild a high school in the Aceh province of Indonesia. Before the December 2004 tsunami, 28 villages populated the Lhoong district, at the far north end of the Indonesian island of Sumatra. After the 30-foot wall of water slammed through the area, just four villages remained.

Many schools were destroyed in the flood, including the only high school in the district. Partnering with the Dompét Dhuafu Foundation, an NGO, Gap Inc. contributed \$308,000 — or nearly 60 percent of the cost — to build a new high school, which includes a library and science and computer laboratories.

Community Corps and Founders' Award



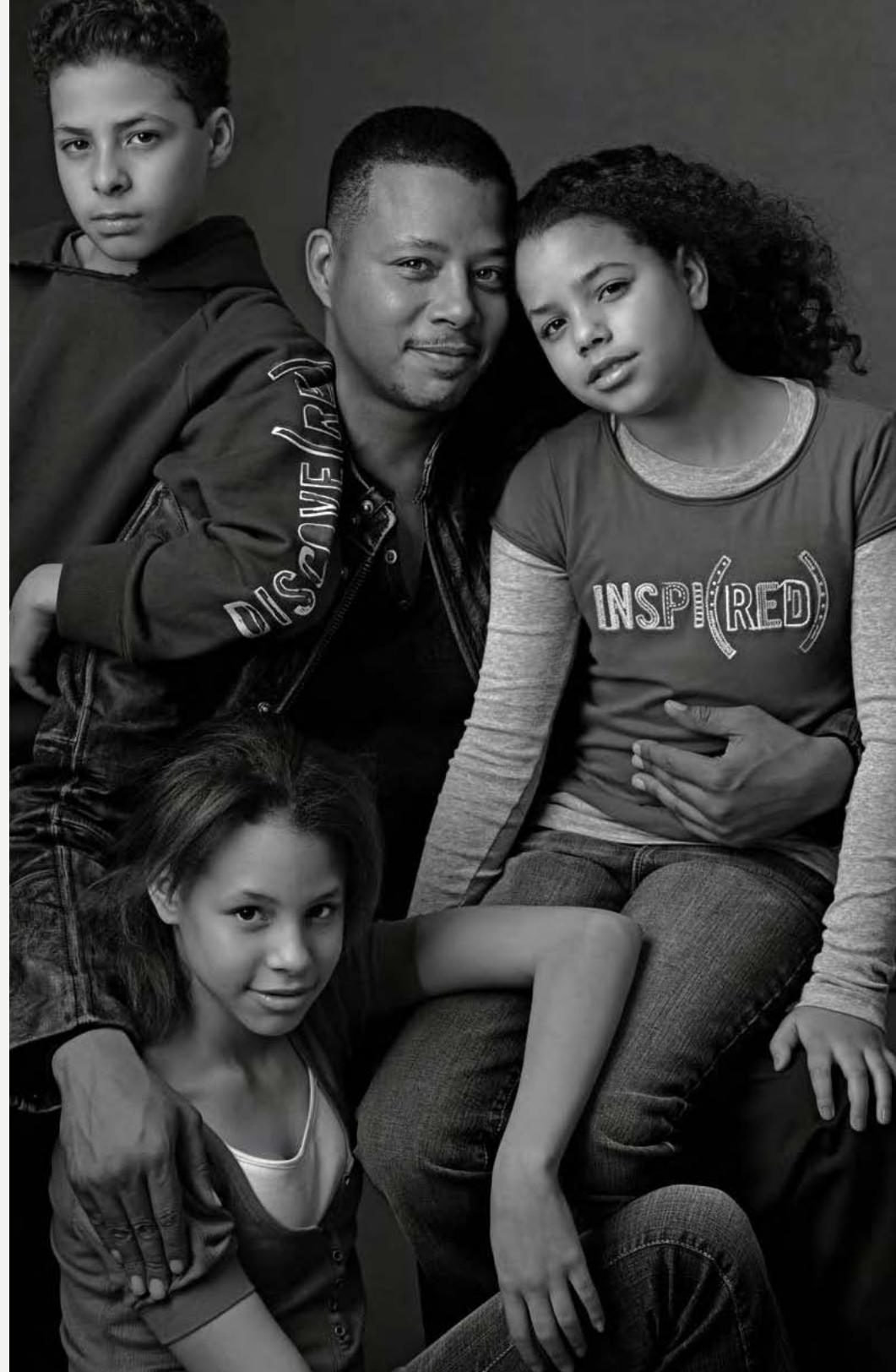
The Community Corps program was established in 2000 as a way to recognize the company's most dedicated volunteers. Since its inception, over 450 employees have participated in the annual trips, collectively building over 70 houses. In the United States, teams have volunteered in Mississippi, New Mexico, Florida, Alaska, Texas, Arizona and Tennessee. In Central America, they've built homes in Guatemala, Honduras, El Salvador and Mexico.

More recently, in 2005 and 2006, Gap Inc. volunteer teams built homes in partnership with Habitat for Humanity in tsunami- and hurricane-affected areas around the globe. In 2005, builds occurred in Miami, Florida, and the southern west coast of Sri Lanka. In 2006, our Community Corps trips rebuilt on the gulf coast in Beaumont, Texas, which was heavily impacted by Hurricane Rita, and in Solola, Guatemala, which was devastated by Hurricane Stan. These efforts contributed to building eight homes and involved more than 170 employees.

In addition, we offer our annual Founders' Award, which provides up to a \$50,000 grant and 80 hours of paid time off to employees who demonstrate an unusual level of commitment to a volunteer project. Our past finalists have devoted their time and creativity to such ambitious efforts as helping to create a school for kids living near a landfill on the California border and developing a job-readiness program for people with disabilities. In one case, a woman's experience with her mother's cancer led her to address the dilemma faced by rural families in North Dakota who must travel for treatment.



CAN
CLOTHES
BE FASHIONABLE
AND MAKE
A DIFFERENCE?



Social responsibility is emerging as a new theme in today's marketplace. In the past few years, discussion of companies' social responsibility practices has moved from reports and websites to supermarket shelves and retail stores. Popular magazines from *Time* and *Newsweek* to *Vanity Fair* and *Elle* have featured new "green" trends. While the assimilation of these messages into mainstream business continues to be gradual, many companies are changing the way they perceive investment in socially responsible business practices.

A New Value Proposition

Shareholders have increasingly embraced the belief that good corporate citizenship and investment in social responsibility practices are tools to help mitigate reputational risk. Yet a strategic approach to social responsibility may do even more to enable business growth—from making supply chains more efficient to offering new ways to connect with customers.

This change in the value proposition is due in large part to the awakening of consumer consciousness. In the past, consumers may not have considered a company's practices when making purchasing decisions. But now they have more choices—from buying snacks that give to a cause to driving cars that run on biodiesel gasoline. More and more, consumers can support causes they care

about by buying a particular product—and avoid companies or products they dislike by taking their dollars, euros and yen elsewhere. The options are vast and growing.

Using "cause marketing" to emotionally engage consumers is not a new idea. But companies are becoming savvier in how they communicate their business practices and encourage consumers to buy socially- and environmentally-conscious products. Social responsibility is no longer just a tool to minimize bad press—it is becoming a way to drive customer satisfaction and brand loyalty. As a result, social responsibility is shifting from a risk mitigation effort to one that enhances the brand experience for customers.

Across Industries

Consumer response to cause-related product and messages has driven an increase in these efforts across industries. When gas prices soared, eco-consciousness became thrifty and hybrid cars hit the mainstream. "Going green" has also shown itself to be convenient—popular solar-powered cellular phone chargers allow users to consume less energy and never miss a call because of a low battery. The grocery retailer Whole Foods has built an entire brand around a values-driven business—and seen its stock price rise by an average of 21.8 percent every year since the company went public in 1992.¹² From the food and automotive

¹² "Whole Foods' Second Banana on Being Green," Corporate Board Member, January/February 2007, p. 77.

Star Power



Singer Natalie Maines of the Dixie Chicks poses with her two young sons, Beckett and Slade, in Gap (PRODUCT) RED's spring 2007 marketing campaign.

One of the most exciting aspects of (PRODUCT) RED™ has been its appeal to people from all walks of life. In addition to a strong response from employees and customers, we have been moved with the way many celebrities have embraced this effort.

We know from past experience the power that celebrities can bring to marketing campaigns. Like U2 rock icon Bono, who founded (PRODUCT) RED with Bobby Shriver, these individuals are often "brand names" themselves. When they join a movement like (RED)™ they generate excitement and media attention. In the fall of 2006, Gap (PRODUCT) RED featured photography by Annie Leibovitz and appearances from diverse personalities such as Olympic gold medalist Apolo Ohno, actress Penelope Cruz, and Academy-award winning director Steven Spielberg. Terrence Howard, the Oscar-nominated actor of *Hustle & Flow* and *Crash* who appears with his three children in Gap (PRODUCT) RED's spring 2007 campaign, pointed out during a recent photo shoot how he and other celebrities are using their time to raise awareness even though they "could be doing a number of different things with their lives.... People don't know about what's really taking place in Africa and they don't know about the pandemic that sits before mankind right now."

When marketing campaigns increase awareness about the HIV/AIDS crisis in Africa and generate demand for products that help save the lives of women and children, everyone wins. (PRODUCT) RED may be about fashionable t-shirts, hip mp3 players, trendy sunglasses, and cool phones, but it's also about generating desperately needed awareness, understanding and hope. As Don Cheadle, who portrayed Paul Rusessabagina in the critically-acclaimed film *Hotel Rwanda*, observed, "[PRODUCT) RED] is such a great way to merge fashion and activism. Hopefully this campaign will help people educate themselves and get them interested about what's happening in the world beyond our own borders."

Gap (PRODUCT) RED™— A Blend of Desire and Virtue

Gap (PRODUCT) RED™ is built on a simple but revolutionary idea. Clothing can be fashionable and make a difference, all at the same time. (PRODUCT) RED taps into the power of consumer desire and transforms it into a tool to help fight HIV/AIDS in Africa. It offers our customers clothing and accessories they love, and, by directing half the profits to the Global Fund to finance programs that help African women and children afflicted by HIV/AIDS, opens up a new way for them to engage with one of the most challenging social crises of our time. The desirable and virtuous nature of (PRODUCT) RED are not mutually exclusive—in fact, we are increasingly learning that (PRODUCT) RED's "virtue" makes it that much more desirable. People don't have to compromise buying products they love in order to do good. With (PRODUCT) RED, they can do both at the same time. We believe that this powerful blend of desire and virtue holds enormous potential, and our hope is that Gap (PRODUCT) RED can help channel it into hope and positive change for people living with HIV/AIDS in Africa.



industries to oil and gas, companies are ratcheting up their social and environmental awareness and product offerings.

Even fashion companies have begun using social responsibility to appeal to consumers. Headlines insisting "Green is the New Black" have rocked an industry that traditionally believed that hemp was for a narrow, less fashion-conscious consumer segment and soy was just for vegetarians. Suddenly, these fibers are strutting down runways during New York City's fashion week and turning up in luxury retail outlets such as Barney's. "Sweatshop free," Fair Trade, and ethical manufacturing are becoming popular discussion topics as brands and retailers highlight these product attributes to differentiate themselves from the competition.

An Authentic Appeal with No Trade-offs

One key to the success of these new socially- and environmentally-responsible product offerings has been the simultaneous appeal to consumer needs and desires. Driving a hybrid car isn't only better for the environment and a way to save on gas — it's also cool. Starbucks customers may be curious about the company's efforts to source coffee beans ethically — but they also love drinking lattes. MAC's *Viva Glam* line gives all of its proceeds to people living with HIV/AIDS — and provides women with premier cosmetics. In today's marketplace, consumers aren't willing to lower their purchasing standards — they still want a quality car, fashionable clothing and tasty food — but they may be more inclined to make these purchases if they feel good about what the product or company is doing for people or the environment.

The best socially responsible products and marketing campaigns have also been built on well-developed program foundations. Toyota invested in research and development for hybrid technology long before the Prius became popular. Starbucks implemented environmentally-sound and socially-sustainable sourcing practices years before it launched its "What Makes Coffee Good" campaign. In the most successful cases, companies have outlined a clear social responsibility vision, made a commitment to realizing that vision, and then strategically leveraged it as a distinctive company asset in a way that stood out from the competition and left others scrambling to catch up.

Our Role in the New Marketplace

Gap Inc. believes this new marketplace holds enormous potential. As a company with deep experience in social and environmental issues, we feel passionately that social responsibility can provide an innovative way to engage our customers. In 2006, we took our first steps to put this belief into action with the launch of Gap (PRODUCT) RED™ — a new limited collection of clothing and accessories for men and women designed to help eliminate AIDS in Africa.

Gap (PRODUCT) RED™

Founded by U2 rock icon Bono and Bobby Shriver, (PRODUCT) RED is based on a simple but revolutionary insight — that first-world consumers have tremendous power and that what they collectively choose to buy or not to buy can have a global impact. The initiative brings together corporations and consumers in an effort to generate a sustainable flow of private sector funds towards the fight to eliminate AIDS in Africa.

Gap (PRODUCT) RED takes what we do best — creating great products that people love — and channels it into positive change. Half of the profits from sales of the Gap (PRODUCT) RED collection go to The Global Fund to finance programs that help African women and children affected by HIV/AIDS.

The Story Behind Gap (PRODUCT) RED

The story behind Gap (PRODUCT) RED began several years ago, when Gap Inc. made a commitment to continue working with apparel manufacturers in Lesotho, a small, mountainous country in sub-Saharan Africa. Manufacturing accounts for approximately 75 percent of Lesotho's total exports, and the apparel and textile industry is the single largest source of employment in the country. Faced with a high 45 percent unemployment rate, Lesotho depends upon its apparel industry for the strength and vitality of its economy.

When the Multi-Fiber Arrangement expired in 2005, many brands saw the new quota-free global regime as an opportunity to move production out of Lesotho. Although we also had business opportunities elsewhere, Gap Inc. determined that shifting production would have grave consequences for the people living and working in Lesotho. So we stayed. We advocated for the U.S. Government to pass the African Growth and Opportunities Act (AGOA), which provides preferential trading arrangements for apparel products from Lesotho into the U.S. market. We also began working with Lesotho's government, business leaders and factory workers to enhance the apparel industry's technical capabilities and responsible labor practices.¹⁴

Around the same time, Bono and Bobby Shriver were looking for ways to help the people of Africa. The HIV/AIDS epidemic has ravaged the continent in recent years, and many African countries now have the highest HIV/AIDS rates in the world. In Lesotho alone, estimates suggest that at least one out of every three people is infected with the virus. This growing pandemic threatens the entire region's future.

Bono and Bobby Shriver determined that Africa needed more than government aid and isolated donors — it also needed the power, creativity and resources of the private sector. So they created a new business model. They set out to do more than just raise funds to address HIV/AIDS — they intended to raise social consciousness by leveraging some of

¹⁴ For more background on our work in Lesotho, please see www.gapinc.com/public/SocialResponsibility/sr_fac_wvf_lesotho.shtml, and pp. 22-23 of our 2003 Social Responsibility Report.

The Apparel Lesotho Alliance to Fight AIDS (ALAFA)



"Recently I spoke to a sewing machinist in the pilot factory who had AIDS. She has eight family dependents relying on her wage. Now that she is on ALAFA's antiretroviral treatment she can keep working and her life should be dramatically extended. Her relief was palpable. She thought her kids would end up as AIDS orphans but she now expects to be with them until they can look after themselves."

—Andy Salm
Regional Textile and Apparel Specialist
for ComMark Trust

Lesotho is a tiny, independent mountain kingdom wholly surrounded by the country of South Africa with a population of approximately two million. Manufacturing accounts for approximately 75 percent of Lesotho's total exports, and the apparel and textile industry is the single largest source of employment in the country. It is estimated that at least one-third of the apparel industry workforce has HIV/AIDS and, in the age category of 30-39, the percentage may be as high as 39 percent.

In 2005, the ComMark Trust received funding from the British Department for International Development (DFID) to develop a strategy to address HIV and AIDS in the apparel industry in Lesotho. ComMark's research team found that two of the key long-term drivers of the HIV/AIDS epidemic — poverty and gender inequity — were also critical constraints on the local industry. They determined not only that an intervention was feasible, but also that it was vital to the long-term economic vitality of the apparel industry and Lesotho's long-term economic development. The biggest hurdle was a lack of funding.

In May 2006, Gap Inc. became the first company to support ALAFA by providing seed funding for a pilot intervention program. The pilot was initiated at Lesotho

Precious Garments, a Gap Inc.-approved factory in Maseru with approximately 4,000 workers, with additional funding available to expand the program to other factories in the country.

ALAFA was designed as a comprehensive approach to fight the spread of HIV/AIDS and to support garment workers who were already infected with the virus. The funded program provides for the training of peer educators within the factory, management sensitizing training, distribution of condoms without charge to the workforce, Voluntary Counseling and Testing (VCT) and for employees who test positive, health monitoring and treatment with antiretroviral drugs through a network of private practitioners.

In 2007, ALAFA aims to reach 50 percent of the apparel workers in Lesotho with its health and monitoring treatment program, and 75 percent of the sector's workers with the prevention campaign. For more information, please see the ComMark Trust's website on ALAFA.*

the most iconic brands in the world. They presented companies with an idea that took business's greatest incentive — profitability — and channeled it into a reliable, self-sustaining source of funding to fight HIV/AIDS in Africa. (PRODUCT) RED was born.

Why We're (RED)[™]

For Gap, (PRODUCT) RED was the perfect fit. Employees were excited to participate — our best designers, merchants and marketers wanted to be part of the (PRODUCT) RED team. (PRODUCT) RED also offered a new way to reinforce our production commitments in sub-Saharan Africa. We had already established relationships with progressive factories in Lesotho and South Africa that could make the iconic Gap INSPI(RED) t-shirts. With the new focus on the region, we also seized the opportunity to partner with the ComMark Trust, Irish Aid and Edun to help launch the Apparel Lesotho Alliance to Fight HIV/AIDS (ALAFA), an innovative and comprehensive new initiative that seeks to bring workplace-based treatment to HIV-positive workers in Lesotho. For more information on ALAFA, please see page 80.

Customer Response to (PRODUCT) RED

Gap launched its first (PRODUCT) RED items in 2006, starting with a line of t-shirts in our UK stores in the spring, and then a broader product line in our North American stores in the fall. Initial customer response was exciting. The Gap INSPI(RED) t-shirt was the best selling item across the entire Gap brand in October 2006. On October 13, 2006, Oprah Winfrey featured Gap (PRODUCT) RED on her nationwide U.S. television show, and within hours of the show's East Coast airing, gap.com had sold through its entire inventory of INSPI(RED) t-shirts. We've been very pleased and inspired by the way our customers have embraced this movement.

Gap (PRODUCT) RED [™]	As of January 2007, contributions from Gap (PRODUCT) RED can cover the annual cost of ARV treatments for AIDS to over 25,000 women and children in Africa
All of (PRODUCT) RED [™]	As of January 2007, (PRODUCT) RED has generated more than \$25 million for the Global Fund

(PRODUCT) RED has also had an impact on our employees. Sales associates in Gap stores wanted to learn more about the challenges in Africa so that they could tell customers. The richness and vibrancy of different African cultures has motivated our design, merchandising, and marketing teams to explore new ways to create and develop products. Even new and prospective employees have told us that (PRODUCT) RED inspired them to want to work for Gap Inc.

The Future for Gap (PRODUCT) RED

Some observers have recently called into question the (PRODUCT) RED business model, arguing that people should give money to non-profit organizations instead of buying products. While we certainly believe that everyone — including companies — should invest in their communities, we also feel strongly that donations alone are unlikely to resolve the major challenges faced by developing nations.

For one thing, donations are inevitably limited. Just six months after the (RED)[™] range was launched in the United States, \$25 million had been generated for the Global Fund — five times the amount given to the Global Fund by the private sector over the previous four years. Our hope is that this is only the beginning. Through (PRODUCT) RED, we are seeking to help create a reliable stream of revenue for the fight against AIDS in Africa that will be complementary to, but far exceed the well-intended but insufficient contributions from corporate philanthropy budgets.

We also believe in the power of knowledge. Marketing has long been an extraordinary way to raise consumer awareness — whether it's about a product or a cause. By using part of our existing marketing budget to talk about AIDS in Africa, we're engaging consumers on a critical global issue and encouraging them to become part of the solution. Data suggest that when people become aware of crises, they give more money rather than less. (RED) isn't just about great products — it's a movement.

Finally, we believe in the need for ethical trade. While the industry in Africa is not yet developed enough to sustain our entire (PRODUCT) RED line, we are exploring ways to have more of our (PRODUCT) RED products made there. As Edun has noted, if Africa could gain just a 1 percent share of global trade annually, it would earn \$70 billion more in exports each year — more than three times what the region currently receives in international aid. We are actively partnering with our approved manufacturers in Lesotho and other sub-Saharan countries to help them improve their production capabilities. It's a start — and our hope is that this work will help them attract more business and ultimately build vibrant, thriving economies.

We are honored to be an original (PRODUCT) RED partner, and we're confident that this product will continue to help save lives in Africa. We have been inspired by our customers' enthusiasm for (RED) and are working hard to develop new products and marketing campaigns that will continue engaging them. We look forward to helping make (PRODUCT) RED a successful, pioneering initiative that will set a new standard for business.

* www.commark.org/alafa

WHY SHOULD COMPANIES INVITE CUSTOMERS TO PARTICIPATE IN THEIR SOCIAL RESPONSIBILITY EFFORTS?

"We face such enormous challenges in our global society today that we — companies and consumers — must work together towards solutions. By talking directly to customers about these challenges, companies can educate and empower thousands of individuals. They can encourage them to act and give their customers a way to participate. Most importantly, they raise awareness that emboldens individuals to act on their own in their everyday lives. Communicating their CSR efforts to customers creates a sense of hope, and we all need more hope in our world."

Kellie McElhane
Professor and Executive Director,
Center for Responsible Business at
University of California at Berkeley's
Haas School of Business



"It's not a one-way dialogue from the brand to the consumer anymore. The consumers have new tools and new transparency for communication, and they're asking 'Where do your products come from? Who's growing them? How responsibly are you functioning as a company?' These questions represent real shifts in consciousness in the world."

Walter Robb
Co-President,
Whole Foods

"(PRODUCT) RED™ is a consumer movement. It harnesses private sector genius and the power of brand marketing to help eliminate AIDS in Africa. Who wouldn't want the world's iconic brands to use their creativity to raise awareness and money to buy the two pills a day that save a life? (PRODUCT) RED puts power in the hands of the shopper and delivers for all involved."

Bobby Shriver
Co-founder and CEO,
(PRODUCT) RED™

"These days, the choices we make as consumers are the most powerful tools we have to fight for change. A lot of us are clamoring for a way to express our values and convictions through our daily actions. Empowering consumers to participate in making the world a better place by including them, and letting them have a voice, in the evolving relationship between corporations, communities and the environment is powerful. Really, really powerful."

Amy Dickie
MBA Student,
Gap Inc. CSR Scholar

"In Europe, customers are keenly aware of ethical trading and environmental issues. They expect companies to operate not in a vacuum, but as a contributing member of our society. In that respect, it has become increasingly important for companies to build social responsibility into their products and brands — and to tell their customers how they strive to make a positive impact."

Stephen Sunnucks
President,
Europe, Gap Inc.

"Today's customer is the savviest in history. Armed with instant information and interest, they can highly praise or deftly damn a company's social initiative. Customers are saying to companies, 'Don't just tell me. Show me. Invite me in. Let me interact with you in a variety of ways. And let me determine what is real. Then I can tell others about how you express your humanity and values in action.'"

Carol Cone
Chairman and Founder,
Cone, Inc.

Global Social Responsibility Initiatives and Projects 2005-2006

- Categories**
- Supply chain initiatives
 - Environmental initiatives
 - Community investment initiatives

Global Initiatives

- Ethical Trading Initiative (ETI)
- Social Accountability International (SAI)
- Global Reporting Initiative (GRI) Apparel & Footwear Working Group
- United Nations Global Compact (UNGC)
- Business Leaders Initiative on Human Rights (BLIHR)
- MFA Forum
- SA 8000 certifications (61 factories certified at end of 2006)
- Better Cotton Initiative (BCI)
- This Way Ahead signature youth program
- P.A.C.E. signature women's program
- Employee gift-matching program
- "In Action" employee volunteer days

Bahrain

- Global Wastewater Program

Bangladesh

- MFA Forum Bangladesh Working Group
- National Social Compliance Forum
- STZ-PROGRESS Comprehensive Training Program
- Human Resources Restructuring Project
- Building structural safety monitoring program
- Brands Ethical Working Group
- Global Wastewater Program
- CARE Competitive Literacy Initiative

Brazil

- Vendor Ownership Program

Cambodia

- Vendor Ownership Program
- MPDF Supervisory Skills Training
- ILO Better Factories Cambodia monitoring and training programs
- Cambodia Buyers' Forum
- ITGLWF-facilitated workshop on Freedom of Association for suppliers and trade unions

- Sponsorship of *At the Factory Gates*, an innovative ILO-created soap opera combining entertainment with important social messages such as dispute resolution and the rights and responsibilities of workers
- Global Wastewater Program
- Hagar Shelter Literacy, Life Skills & Vocational Training
- CARE Reproductive Health Education Program for Garment Workers
- Sihanouk Hospital Center of Hope (capacity building for rural hospitals)
- Speu Khor Biosand Water Filtration Project

Canada

- Global Wastewater Program

China

- Vendor Ownership Program
- Workplace Safety Management Committee
- Labor Law training & Help Line for workers (by Mr. Chen)
- Productivity Enhancement program (by a former HKPC consultant)
- Government Outreach through the Better Workplace Association
- Cross-Brand Working Group
- Global Wastewater Program
- Local Community Service (Gap Inc. Hong Kong office)

Colombia

- Global Wastewater Program

Dominican Republic

- Vendor Ownership Program
- CIMCAW
- Global Wastewater Program

Egypt

- Global Wastewater Program

El Salvador

- Vendor Ownership Program
- Independent Monitoring by Grupo de Monitoreo Independiente Salvador (GMIES)
- CIMCAW

Guatemala

- Vendor Ownership Program
- Independent Monitoring by the Commission for the Verification of Corporate Codes of Conduct (COVERCO)
- CIMCAW
- "Global Innovations in Labor Assurance" conference
- Supervisory labor training (with COVERCO)
- Global Wastewater Program
- FOTOKIDS Scholarship Program
- FOTOKIDS Media Center & Educational Program
- FUNDAESPRO Vocational Training & Childcare Center
- ISMUGUA Communal Bank Capacity Building

Honduras

- Vendor Ownership Program
- MFA Forum Americas Working Group (scoping)
- CIMCAW
- Global Wastewater Program
- Casa Corazon Home for HIV+ orphaned children
- CARE Women's Health & HIV/AIDS Prevention Program

India

- Vendor Ownership Program
- ITI Working Group on Homeworkers
- Brands Ethics Working Group
- ITGLWF-facilitated workshop on Freedom of Association for South Asia team
- Hiring program for disabled workers

- Education for All (factory adult education & women/children community education)
- Worker-management communication initiative
- Factory energy saving initiatives
- Global Wastewater Program
- Acharyashrama Orphanage Educational Assistance
- Nagapattinam Government Hospital Maternity Ward (post-tsunami relief)
- Project Swabhiman Lifeskills Training & Education Program

Indonesia

- Vendor Ownership Program
- OA team training by ITGLWF
- OA supplier & factory training by Verité
- Global Wastewater Program
- Dompot Dhufata Foundation Bande Aceh High School reconstruction (post-tsunami relief)

Jordan

- Global Wastewater Program

Kenya

- The Living Water Center Job Skills Training Program

Lesotho

- MFA Forum Lesotho Working Group
- Factory Human Resources Development Program
- Global Wastewater Program
- Apparel Lesotho Alliance to Fight AIDS (ALAF)
- Habitat for Humanity building project

South Korea

- Vendor Ownership Program
- Local Community Service (Gap Inc. Seoul office)

Macau

- Global Wastewater Program

Madagascar

- Global Wastewater Program

Malaysia

- Vendor Ownership Program
- Social Responsibility Annual Conference team training
- ITGLWF training on Freedom of Association Theory & Practice (internal team)
- Global Wastewater program

Mexico

- Vendor Ownership Program
- Global Wastewater Program

Nepal

- Vendor Ownership Program

Nicaragua

- CIMCAW
- Global Wastewater Program

Oman

- Global Wastewater Program

Peru

- Vendor Ownership Program

Philippines

- Vendor Ownership Program
- Global Wastewater Program
- MPEFI Smoky Mountain Educational & Livelihood Project
- TW-MAE-W Vocational Training Workshop
- Kabuhayan Sa Komunidad Micro-Finance & Skills Building Program

Singapore

- Vendor Ownership Program
- Global Wastewater Program

Sri Lanka

- Global Wastewater Program
- Ceylon Chamber of Commerce Women's Assistance Project (post-tsunami relief)
- Brandix Water Resource Board Project (village tube well construction in partnership with Brandix Lanka Ltd.)
- Women in the Community "Go Beyond" Program (partnership with MAS Holdings, Ltd.)
- Habitat for Humanity building project
- Dombarawa Village School Education Project (post-tsunami relief)
- Handaittawa Village School Education Project (post-tsunami relief)
- Dahattakandita Base Hospital Refurbishment

Thailand

- Vendor Ownership Program
- Participation in the regional consultation convened by John Ruggie, Special Representative of the UN Secretary General on Business and Human Rights, in Bangkok, Thailand
- ITGLWF training for Southeast Asia regional team on Freedom of Association
- Global Wastewater Program

Turkey

- Cross-Brand Working Group
- Joint Initiative on Corporate Accountability and Workers' Rights
- AKUT Emergency Management System training

- ACEV Parent Education program
- Global Wastewater Program
- Local Community Service (Gap Inc. Istanbul office)

United Arab Emirates

- Global Wastewater Program

Vietnam

- Vendor Ownership Program
- Reproductive Health Care training (by Marie Stopes)
- Occupational Health training by ISOS
- Global Wastewater Program
- CARE Clean Water for Schools Program
- Hanoi University of Foreign Studies Scholarship Program
- East Meets West Foundation Village Safe Water System
- Hanoi University Student Support Fund
- Mai Tam Drop-in Center Vocational Training Program

United States

- National Recovery Center (NRC) Waste Initiative
- U.S. Environmental Protection Agency (EPA) Climate Leaders Program
- Global Wastewater Program
- CSR Scholars Program
- Glide Memorial Church partnership
- AIDS Walk sponsorship & participation
- Old Navy Field Trip 4 Fun
- Boys and Girls Club of America partnership
- Camp Old Navy

Approved Sourcing Countries

United States and Canada

Mexico, Central America and the Caribbean

South America

Europe (including Russia)

North Africa and the Middle East

Persian Gulf

Sub-Saharan Africa

Indian subcontinent

Greater China

Southeast Asia

North Asia

Brazil
Colombia
Peru
Uruguay

Costa Rica
Dominican Republic
El Salvador
Guatemala
Honduras
Mexico
Nicaragua

Belgium
Italy
Spain
United Kingdom
Bulgaria
Moldova
Romania
Russia
Turkey

Egypt
Israel
Jordan
Morocco
Tunisia

Bahrain
Oman
Qatar
United Arab Emirates

Kenya
Lesotho
Madagascar
Mauritius
South Africa

Bangladesh
India
Nepal
Pakistan
Sri Lanka

China
Hong Kong
Macau
Saipan/N. Marianas (U.S.)
Taiwan (R.O.C.)

Burundi
Darussalam
Cambodia
Indonesia
Malaysia
Philippines
Singapore
Thailand
Vietnam

Japan
South Korea



PUBLIC REPORTING WORKING GROUP STATEMENT

OUR GOALS

We applaud Gap Inc.'s continuing commitment to an impressive array of projects designed to improve factory working conditions at a time when the company is experiencing significant business challenges. Several years ago, we approached Gap as shareholders, seeking a public report that would allow stakeholders to measure annual progress toward improving conditions in the factories around the world that manufacture its products. That engagement produced what was widely regarded as a groundbreaking report, setting a high bar for the apparel sector. It has been a privilege to serve as a sounding-board for the company on these reports, providing comments and critiques on each.

This new report continues to set the pace for public reporting about global labor standards compliance. It is disappointing that three years after Gap's first report, so few companies have issued anything approaching the credibility and transparency of Gap's initial effort. With few exceptions, the state of public reporting on supply chain compliance has changed very little, with many companies remaining silent.

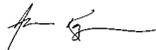
Public reporting serves two important purposes; it provides public accountability to stakeholders, and analysis of disclosed data provides a vehicle for continuous improvement of compliance efforts. It can also help investors to mitigate risks stemming from poor labor standards compliance. Without such data, stakeholders cannot evaluate a company's commitment to enforcement of its code of conduct, or to key activities like capacity building and factory level training which can improve the lives of workers. We continue to challenge Gap's competitors to demonstrate their commitment to social responsibility and accountability by following its lead.

Gap continues to demonstrate a dynamic approach to factory compliance, focusing on auditing as well as a broader framework including worker empowerment, capacity building, and long-term partnerships to reduce the impact of factory relocations.

The report could be strengthened in some key areas. For example, we encourage Gap to develop metrics and data on the business benefits of social responsibility to match the performance data provided on factory monitoring. In past reports, Gap identified working with other companies on

a uniform code of conduct as a high priority. There is no discussion of progress made toward this goal or reasons for the lack of such progress. We also encourage 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 would also like to see more analysis of the overall effectiveness of Gap's efforts to improve factory working conditions, and to address systemic compliance issues. This analysis should deepen Gap's ability to move from a corrective action system addressing individual violations, to making permanent changes in factory culture and practices, which are urgently needed to improve the lives of workers.



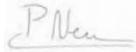
Adam Kanzer, Esq.,
Domini Social Investments LLC



Alya Z. Kayal, Esq.,
Calvert



Conrad MacKerron,
As You Sow Foundation



Patrick Neyts,
Vectra International



Ruth Rosenbaum, TC, Ph.D.,
Center for Reflection,
Education and Action



David M. Schilling,
Interfaith Center on
Corporate Responsibility

Supply Chain	Employees	Environment	Community Investment	Marketplace
<ul style="list-style-type: none"> Move increasing amounts of production into higher rated factories By 2009, increase the number of Level 4 or Level 5-rated factories by 5 percent By 2009, decrease the number of Level 1-rated factories by 5 percent By 2008, update Gap Inc. Code of Vendor Conduct to more closely align with Ethical Trading Initiative base code and Social Accountability International's SA8000 standard In 2007, implement new information technology system to enhance our ability to capture and quantify social responsibility data Expand workshops for suppliers and trade unions in selected countries as part of integrated strategy to address ongoing challenges regarding workers' rights to freedom of association and collective bargaining 	<ul style="list-style-type: none"> Provide opportunities for employees to take on new roles in the company, as measured by increasing the percentage of Vice President positions filled by internal candidates by 2009 Foster an open, inclusive work environment through leadership and transparent communication that engages employees, as measured by our employee opinion survey Increase employee engagement by 2009, as measured by our employee opinion survey and ongoing feedback from employees Continue investing in learning and development opportunities that build the capability to deliver great product and store experiences for our customers Increase our investment in keeping employees healthy by exploring new health care options, including introducing consumer-driven health care plans 	<ul style="list-style-type: none"> Continue to reduce energy consumption to achieve U.S. Environmental Protection Agency Climate Leaders goal of reducing greenhouse gas emissions by 11 percent per square foot from 2003 to 2008 By 2008, seek opportunities for energy creation Through the Better Cotton Initiative, help create cotton cultivation processes that have a positive environmental, social and economic impact By 2010, include sustainable/recycled materials in product packaging in our brands Find new ways to incorporate sustainably-designed products in each of our brands Continue strong waste management efforts at headquarters By 2010, introduce new store-level waste management initiatives By 2010, introduce new supply chain waste management initiatives 	<ul style="list-style-type: none"> By 2010, expand This Way Ahead beyond New York City to San Francisco to include 400 youth; explore expansion to additional cities By 2010, expand P.A.C.E. to include India, China, Cambodia, and Turkey and to impact 4,000 women By 2008, align 70 percent or more of our grant-making dollars to target causes In 2007, increase employee participation in Gap Inc.'s community investment programs over previous years 	<ul style="list-style-type: none"> Continue partnership with (PRODUCT) RED™ through 2011 Introduce additional lines of socially responsible products

PUBLIC RECOGNITION

- The CRO Magazine recognized Gap Inc. at number 25 on its annual list of "100 Best Corporate Citizens" in 2007.
- In 2005 and 2006, we were recognized as one of the "Top 30 Companies for Executive Women" by the National Association for Female Executives (NAFE). This prestigious list measures women's representation among the highest-paid and top-tier positions at America's largest companies.
- In 2005 and 2006, Gap Inc. received a perfect score by the Human Rights Campaign, which rates companies on key indicators of fair treatment for lesbian, gay, bisexual and transgender (LGBT) employees, including domestic partner benefits, discrimination policies, and marketing and advertising efforts.

- In 2006, *Ethisphere*, a leading publication on ethics and compliance, awarded Gap Inc. an "A" rating for our Code of Business Conduct, the only "A" given to the 25 retailers that were rated.
- Ethisphere* magazine named Gap Inc. as one of 2007's most ethical companies.
- Gap Inc. ranked fifth among 31 apparel retailers in the Ethical Trading Action Group Transparency Report Card 2006: "Revealing Clothing" report.
- In 2006, *Careers & the disABLED* magazine ranked Gap Inc. number 24 in the top 50 employers of people with disabilities.
- In 2006, Gap Inc. was named "Ideal Employer" among all retailers for students interested in careers in retail and fashion, in

- an annual survey by Universum. The study, which was reported in *Women's Wear Daily*, polled more than 37,000 students at more than 200 leading colleges and universities across the United States.
- In 2006, Gap Inc. ranked number 53 in a Universum survey of 4,996 MBA candidates to determine the most socially responsible companies.
- Our 2004 Social Responsibility Report was recognized for "Commendation for Continued Excellence in Social Reporting" by the 2005 Cares-ACCA North American Awards for Sustainability Reporting.
- In 2005, *PRNews* recognized our 2004 Social Responsibility Report in its annual CSR Awards competition.

- For our involvement with (PRODUCT) RED, Gap Inc. was recognized with a Women's Wear Daily 2006 Exec Tech Community Service Award.
- Gap Inc. is listed on the following social investment indices:
 - Calvert Social Index
 - Domini 400 Social Index
 - Dow Jones Sustainability Index
 - FTSE4Good Index

Better Cotton Initiative

A multi-stakeholder initiative that aims to encourage cotton farming practices that are more economical and healthier for both the farming community and the environment. For more information, visit www.bettercotton.org.

Business Leaders Initiative on Human Rights (BLHR)

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

Business for Social Responsibility (BSR)

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

CH2M HILL

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

Climate Leaders

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

Code of Business Conduct

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

Code of Vendor Conduct (COVC)

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

Ethical Trading Initiative (ETI)

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

Freedom of Association

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

Global Compliance

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

Global Reporting Initiative (GRI)

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

Homeworkers

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

Hong Kong Productivity Council (HKPC)

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

Impact

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

Independent Monitoring

Ongoing monitoring of working conditions conducted by local non-profit, civil society organizations at the request of companies or international organizations.

Independent monitoring groups usually report their findings publicly.

International Labour Organization (ILO)

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

Joint Initiative on Corporate Accountability and Workers' Rights

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

Multi-Fiber Arrangement (MFA)

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

Non-Governmental Organizations (NGOs)

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

P.A.C.E. (Personal Advancement, Career Enhancement)

Our community investment signature program based in the developing world that seeks to open up opportunities for women. Represents a unique collaboration between Gap Inc. and our NGO and vendor partners to provide life skills education as well as leadership training to help women advance in work and life. (Launched in Bangalore, India in June 2007.)

Public Reporting Working Group

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

Social Accountability International (SAI)

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

Sourcing

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

Stakeholders

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

This Way Ahead

Our community investment signature program that focuses on helping underserved youth make a successful transition to adulthood and the world of work. In partnership with local non-profits, the program offers a combination of practical work skills training, social support and additional services addressing personal development. Also includes paid internships at Gap and Old Navy stores. (Launched as a pilot in New York City in March 2007.)

Vendor Compliance Officer (VCO)

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

Verité

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

Scope

This Report provides an overview of the social, environmental, and economic impacts of Gap Inc.'s U.S. and international operations. These operations cover our Gap, Banana Republic, Old Navy, and Piperlime brands, as well as our Forth & Towne brand during its lifetime. This Report outlines our social responsibility efforts in the areas of corporate governance, supply chain, employees, environment, community investment and the marketplace.

Timeframe

We believe that it's important to communicate regularly with our stakeholders. Starting with this Report, we will be publishing biennial Social Responsibility Reports. These formal Reports are an important component of our public reporting strategy, which also includes regular updates to our website, www.gapinc.com/socialresponsibility, as well as formal stakeholder sessions and ongoing informal stakeholder outreach, dialogue, and partnerships.

Data included in this Report relates to activities during Gap Inc.'s fiscal years 2005 and 2006 (January 30, 2005, through February 3, 2007), unless otherwise noted.

Stakeholder Engagement

Throughout our work, we strive to partner with organizations that share our commitment to social responsibility. We believe it is equally important to partner with stakeholders in our public reporting process.

Because there is no generally accepted standard for assessing the quality of social and environmental reporting, we rely heavily on open communication and partnership with our stakeholders to ensure we are providing appropriate transparency into our efforts. We do this in three ways: by maintaining an open dialogue with stakeholders throughout the year, by participating actively in multi-stakeholder initiatives and by collaborating with stakeholders and other companies on special projects to address issues of mutual concern. We also provide regular, separate reports on our progress in all of these areas to the Ethical Trading Initiative (ETI), Social Accountability International (SAI) and the United Nations Global Compact (UNGC) as a condition of our membership.

As in previous years, we again partnered with our Public Reporting Working Group in the development of this Report. This group was formed in late 2002 to help us determine our strategy for reporting publicly on our social responsibility efforts. The members of the group provided input on content and reviewed and assessed the final Report. Their statement can be found on page 86.

In addition to working with the Public Reporting Working Group, we also held an important stakeholder feedback session in New York City in early 2007. More information about the outcomes of that session and how they guided our development of report content can be found on page 14. We greatly appreciate the time and effort taken by all of our stakeholders to provide us with constructive feedback, and we know that this Report has been substantially improved by their willingness to engage with us.

GRI Guidelines

The Global Reporting Initiative (GRI) is a network of organizations and individuals that seek to develop a common framework for social, environmental and economic reporting.

In 2005 and 2006, Gap Inc. participated in the GRI's working group to develop an Apparel and Footwear Sector Supplement that would introduce a reporting framework specific to the issues in our industry. The group included approximately 20 members representing a geographically-diverse mix of major brands, leading manufacturers, civil society organizations, trade unions, environmental experts and investors. A summary of the group's work is available on the GRI's website. [GRI](#)

The GRI's new G3 guidelines and the draft GRI Apparel and Footwear Sector Supplement helped guide us throughout the development of this Report. Although this Report is not in full accordance with either framework, the table of contents of this Report provides an index of GRI indicators and the sections to which they apply. A more detailed index is also available on our website. [GRI](#)

United Nations Global Compact

The UNGC [GRI](#) 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 in the table of contents of this Report.

Printing Considerations

Mindful of our planet's natural resources, we limited the number of printed copies of this Report to 4,000. We printed this Report on Grays Harbor Quinault 100% PCW Smooth 40# Text, comprised of 100 percent recycled post-consumer waste, FSC-certified paper and manufactured with 100 percent certified renewable, carbon neutral energy. Using this paper instead of virgin pulp, we were able to save the following resources:

- 120 fully grown trees
- 50,052 gallons of water
- 70 million BTUs of energy
- 5,600 pounds of solid waste
- 11,050 pounds of greenhouse gases



Our hope is that interested readers will view this Report online, accessible at www.gap-inc.com/socialresponsibility/sr_report.shtml.

Feedback

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.

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Gap (PRODUCT) RED™
Denim Jacket
Made in Vietnam

Just as the component pieces pictured throughout this report are assembled to create this denim jacket, our efforts—in the supply chain, with our own employees, in the environment, our communities, and in the marketplace—work together to have a lasting positive impact on society.

Gap Inc.

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