

Our Futures
Are Woven
Together



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Gap Inc. CEO Art Peck volunteering at Boys & Girls Clubs of San Francisco

Letter From Our CEO

Anyone who has spent time with me at Gap Inc. knows that I'm obsessed with product. Design. Craftsmanship. Texture and color. The smallest details. All of it matters and adds up to something beautiful, enticing and suggestive of a bigger story.

What that story is, however, can be tough to know at first glance.

Was a shirt or jacket sewn by someone who works in safe and fair conditions? Was care taken to mitigate any potential environmental harm caused by the manufacturing process? Were the people whose lives were touched by the creation of a piece of clothing affected in a positive way?

I'm convinced that this part of the story matters – and will come to matter even more in the future. Products that are disconnected from people will leave people feeling, well, disconnected. And retail is nothing if it is not about emotion.

Part of what is so intriguing to me about our company is that our story is still evolving, and we have a great opportunity to shape it. Frankly, I'm not satisfied with where the apparel industry, including Gap Inc., is today on a variety of social and environmental issues. Many times, creating change feels frustratingly slow. Yet change is more urgent now than ever, for all of us. We face global challenges that require collective action. People everywhere rely on vital resources like water to live; our company, too, can't survive without a healthy environment. Likewise, we know that we can only thrive in a world in which all people have the chance to do the same. This sense of connection is what encourages me that change is not just possible, but imperative – our futures are tied together, and we can't afford not to act.

Change is not just possible, but imperative – our futures are tied together, and we can't afford not to act.

We don't pretend to have all the answers, but I have personally experienced what we can make happen as one of the world's largest apparel retailers. Over the past few years, we raised the hourly wage for more than 60,000 Gap Inc. employees, a step we hoped would help individual people while also sparking broader change – and in fact, other retailers followed suit. In September 2015, we announced our commitment to expand our P.A.C.E. program to educate one million women throughout the world by 2020. We started P.A.C.E. to help the women who make our clothes gain the skills and confidence to advance at work and at home, and it is both exciting and humbling to set a goal to reach women on a much greater scale.

At the same time, in some areas our story does not yet align with our aspirations. A case in point is the environment. We have more to do to address critical issues across our business operations. To spur our progress, we have set two ambitious goals that we are announcing with this report: by the end of 2020, we commit to a 50 percent absolute reduction of greenhouse gas (GHG) emissions in our owned and operated facilities globally from 2015 levels, and to 80 percent waste diversion from landfill for our U.S. facilities.

We also know that while we have made progress when it comes to improving working conditions inside factories, we still face challenges in ensuring the safety and well-being of the people who make our clothes. Over the past few years, we have been reassessing and redesigning our approach to how we can catalyze improvements.

Our new partnership with Verité, which focuses on measuring and improving the degree to which garment workers feel valued and engaged at work, is a prime example, and we aim to create other innovative approaches as we move forward.

I fully expect that we will be judged by our actions, but the heart of our story lies in our commitment. We're not perfect, but what I can say without hesitation is that we are committed to this work. We're striking up new partnerships, investing in new strategies and testing new ideas. We believe we have a real opportunity to make a difference in people's lives through our business.

We don't pretend to have all the answers, but I have personally experienced what we can make happen as one of the world's largest apparel retailers.

While the fashion industry has its challenges, it is also full of promise. The beauty of a piece of clothing can extend outward to touch people and the world in ways that are far from obvious. This potential is what drew me to Gap Inc. to begin with, and it is what keeps me inspired as we chart our course for the future.

Sincerely,

A handwritten signature in black ink, appearing to read 'Art Peck', with a stylized flourish at the end.

Art Peck
CEO, Gap Inc.

Highlights

Our futures are woven together

WOMEN'S ADVANCEMENT

1,000,000

WOMEN

By 2020, we will expand Gap Inc. P.A.C.E. to more factories and communities to give one million women worldwide the opportunity to gain the skills and confidence to change their lives.

EQUALITY + OPPORTUNITY

60,000+

EMPLOYEES

We led our industry and raised the minimum wage to \$10 for 60,000+ US employees in 2015. We were also the first Fortune 500 company to disclose that we pay female and male employees equally for equal work.

VOLUNTEERS

558,000

HOURS

Our employees volunteered 558,000 hours in 2014 alone. This new record was set with the support of more than 2,000 Community Leaders across the world, who lead a wide range of volunteering projects for their teams.

YOUTH

2,000+

TEENS + YOUNG ADULTS

More than 2,000 teens & young adults have received job training and store internships through our This Way Ahead program. Our investments in nonprofit organizations have reached over 270,000 youth in the past 3 years.



There's a power in our connection to each other that offers unlimited possibilities for creating change.

WATER

17,000

PEOPLE

Through our Women + Water program, 17,000 people in India now have access to clean water. We partner with fabric mills and the Natural Resources Defense Council to conserve water and fight pollution.

CLIMATE

-50%

EMISSIONS

We view access to a healthy environment as a human right – and we've set ambitious goals for 2020, including a 50% absolute reduction of greenhouse gas emissions in owned and operated facilities globally.

FACTORY WORKING CONDITIONS

1,000

FACTORIES

We consistently visit the factories that make our clothes – about 1,000 each year. Through innovative partnerships and as a founding member of the Alliance for Bangladesh Worker Safety, we're forging industry-wide change.

DIVERSITY + INCLUSION

70%

LEADERSHIP

We're a voice for marriage, racial, and gender equality. In 2015, women made up more than 70% of our senior leadership, and we sponsored six employee resource groups to promote diversity and inclusion.



Our Sustainability Strategy

When our founders, Doris and Don Fisher, started Gap Inc. in 1969, a key part of their vision of success was creating opportunities for the people and communities touched by our business throughout the world.

In the decades since, we have been on a journey to live this vision. We have expanded our efforts to ensure that the people who make our products work in safe, fair conditions. We have started addressing our environmental footprint, taking steps to save energy, reduce our greenhouse gas emissions and mitigate other effects of making our clothes. And we have become more strategic in our work in the community, addressing social challenges through programs that leverage our company's core strengths.

Now we find ourselves at an important turning point.



The Short Story

Strategy

- We're integrating sustainability more deeply into our business to create greater impact.
- This strategy results in more widespread change for the people we touch and our business.
- One example is collaboration between our sustainability and sourcing teams.
- These teams have created shared goals to improve factory working conditions.

“Sustainability is evolving to a new phase within many companies, with **a larger number of employees feeling real ownership and accountability for the work.** It's this deeper integration into the business that will unlock greater progress and impact.”

– **Dan Henkle**, Senior Vice President, Global Sustainability and President, Gap Foundation

We recognize that to create even greater change, the work of sustainability must become a seamless part of running our company. This business integration is a critical step that will unlock possibilities – for our company as well as for others.

We feel an urgency about moving to this next phase in our evolution. Global challenges such as climate change and inequality demand action – by all of us. We share an environment that must be protected by everyone. Likewise, none of us can reach our fullest potential if any one of us lacks the opportunity to do the same. Our futures are tied together – and we must act together.

Throughout our journey, the connections between us have meant that when we work to positively change people's lives, they change us too. When the people who make our clothes work in safe, fair conditions, they can become more productive and help us create better products. When women garment workers enhance their life skills through our P.A.C.E. program, they bring newfound confidence and abilities to their jobs and lives. When we keep chemicals out of local waterways and help prevent the negative effects of climate change, communities become stronger, in turn creating an environment in which our business can thrive. When our employees feel empowered to be their best, they enable us to be the same. One act builds on another.



Gap Inc. leaders visiting a supplier's factory in Bangladesh

Creating sustainable impact on a bigger scale

Now, we aim to amplify these positive benefits by embedding the work of creating social and environmental change more deeply into our business. This change goes far beyond expanding programs, and represents a shift in mindset. Typically, our sustainability efforts have started off with dedicated teams inside Gap Inc. As we move forward, this work will start to belong to everyone, becoming part of how we run our business day-to-day.

Because of our reach as a global company, we believe that this shift will enable us to create sustainable impact on a much larger scale.

Our strategy is comprised of three major stages: creation, integration and impact. Creation is when we first act or develop an innovative approach to creating social or environmental change. Once we demonstrate that our efforts bring benefits both to the people and communities we serve, as well as to our business, we move on to integration. Integration leads us away from a model in which sustainability is a separate function – and toward one in which a much broader group of actors drives change. The result of this strategy is impact – on a bigger scale and in a way that is sustainable for the long term.



When the people who make our clothes work in safe, fair conditions, they become more productive and help us create better products.

A prime example of how business integration can help us move forward involves our efforts to improve working conditions for the people who make our clothes. We have been expanding these efforts for more than two decades and have played a leading role in multi-stakeholder innovations such as the Better Work program, a collaborative approach to monitoring factories. While we have made significant progress through the work of our sustainability team, we recognize that to create lasting, widespread change, our sourcing team and brands also need to play active roles. These teams are finding new ways to collaborate every day, including the setting of shared sustainability goals. They are also taking an integrated approach to measuring the performance of our suppliers across all dimensions that are important to us, from working conditions to environmental performance.

70%

LEADERSHIP

We're a voice for marriage, racial, and gender equality. In 2015, women made up more than 70% of our senior leadership, and we sponsored six employee resource groups to promote diversity and inclusion.

To support this work, we created a sustainability forum at Gap Inc. that brought together some of our most senior leaders across the company to explore new ways of collaborating. We engaged a third party to verify and became the first Fortune 500 company to disclose that we pay female and male employees equally for equal work around the world – whether dollar for dollar, pound for pound, yen for yen, or euro for euro. We're now exploring how to take this collaboration to the next level, including joint ownership of long-term, ambitious goals that are approved and owned by leaders throughout the business.

Building on our efforts through business integration

Another example in which business integration can drive change on a larger scale centers on our efforts to create greater equality. A year ago, for example, we became the first Fortune 500 company to engage a third party to verify and publicly confirm that we pay women and men equally for equal work around the world – whether dollar for dollar, pound for pound, yen for yen, or euro for euro. In the U.S., for example, a woman makes 78 cents for every dollar a man earns. National Equal Pay Day represents how far into the current year many women must work in order to close the gap from their previous year's earnings. In 2015, the date fell on April 14.

We think of our strategy as comprising three major stages: creation, integration and impact.

Committing to equal pay for equal work has its roots in our culture. Our co-founder Doris Fisher established early on that women would play a key role at Gap Inc. With women making up over 70 percent of our senior leadership team, our commitment to their advancement is thoroughly integrated into our business. As a result, we can work to create impact on a larger scale. Beyond shaping our own culture, we seek to influence the culture at large – by making a statement about equal pay for women, we hope to inspire other companies to follow suit.

A final example of how business integration can spur our progress involves our efforts to unleash the potential of youth through the transformative power of work. Through our signature program This Way Ahead, we provide job readiness training and paid internships for underserved youth in major cities such as New York and San Francisco. To date, 75 percent of This Way Ahead interns have been hired as permanent store associates, and their average tenure is almost twice as long as that of their peers.

In other words, as youth have learned valuable skills and gotten jobs, we have benefited by gaining access to a strong pipeline of talent. Now, given the benefits to our business and young people in our communities, our brands are eager to play a greater role in This Way Ahead, taking it beyond the realm of Gap Foundation, which launched the program in 2007. We are also setting goals to hire many more store associates from the program, thereby creating change on a larger scale.

Identifying the most material issues for our business and stakeholders

Business integration goes hand-in-hand with focusing in on the key issues we need to prioritize in order to create the greatest impact. To identify these priorities, we recently conducted an in-depth materiality assessment, weighing which issues matter most to our business and the people and communities we touch. We broke these issues into three main categories: governance and operating context; human rights and social impacts; and resource use, scarcity and impacts.

Throughout our journey,
the connections between
us have meant that when
we work to positively
change people's lives,
they change us too.

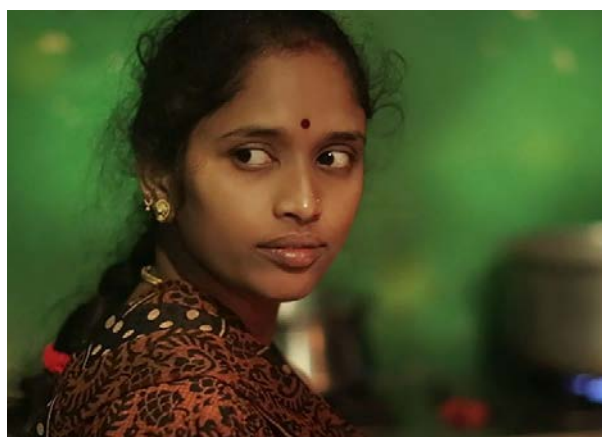


Some of our findings reaffirmed our current direction. For example, we have long considered human capital and development – the ability of people to reach their potential and work at their best – to be critical to our success. Our conclusions also underscored that water stewardship is essential for our business, as well as for people and communities, and we are deepening our work in this area. Other issues that emerged in our materiality assessment will demand more of our attention in the future. A prime example is radical transparency, which is changing the business environment, as consumers and stakeholders seek greater openness about products and services. We are asking how this new reality can become a tool for continuous improvement, so that radical transparency can be an advantage for our business.

In some of the areas we are focused on, we are still at the early, creation stage of our strategy, while in others we have gone much further. And we are determined to continue on the journey. In September 2015, for example, we announced a commitment to educate one million women worldwide through our P.A.C.E. program, a scale that was barely imaginable when we first launched P.A.C.E. in 2007. Over time, we see enormous potential to bring our strategy to life in other areas, from fighting climate change to further supporting equality. And we believe that our efforts will help us become not just a more sustainable company, but a better company, one that unlocks new possibilities for all of us.

“In two years I have changed so much. Nobody believes it – and even I can’t believe how much has changed.”

– **Sujatha**, Gap Inc. P.A.C.E. program graduate, India



Meet Sujatha

When P.A.C.E. started, I was working as an operator. Even though I spoke well, I didn’t have much confidence or courage. I had only studied through 10th grade in the village where I grew up, and I felt scared when the P.A.C.E. teacher would call on me. I didn’t have many ideas about my future. But as I attended the program, I learned to talk with different people. I opened a savings account. I started to have new ideas and began to see how I could accomplish them. My attendance in P.A.C.E. was 100 percent – and when the program ended, I was promoted to be a supervisor. Now, every day in team meetings, my team members ask me to keep talking – they have a lot of curiosity and want to listen to me more. Everyone tells me that I should motivate others to achieve what I have achieved. In my opinion, P.A.C.E. should spread to all women. We can achieve whatever we want if we are dedicated to it. And I’m an example of that. In two years I have changed so much. Nobody believes it – and even I can’t believe how much has changed.



Goals and Progress

Holding ourselves accountable is fundamental to our approach to sustainability – below are key goals, our progress to date and where we are heading in the future.

New & Current Goals

Factory Working Conditions	Completion Target*
100% of Gap Inc. strategic suppliers* of branded apparel will have a sustainability rating of green or yellow	2020
100% of strategic suppliers of branded apparel self-report their sustainability performance in Gap Inc.'s global sustainability data system	2018
Partner with Verité and strategic suppliers to measure workers' sense of value and engagement at work, and launch projects aimed at improving 20,000 workers' engagement. Publicly report on findings and impact, and share best practices with all Gap Inc. suppliers	2018
Employees	
Ensure female representation at all leadership levels is meaningfully above external norms	Ongoing
Pilot and commit to expand programs that provide advance notice and stable, flexible scheduling to store employees	2017
Provide free job skills training to 300,000 people that improves their opportunities to obtain entry-level positions at Old Navy stores	2016
Environment	
50% absolute reduction of greenhouse gas emissions in our owned and operated facilities globally	2020
80% waste diversion from landfill for our U.S. facilities	2020
Work towards zero discharge of hazardous chemicals in our supply chain through membership in ZDHC 2020 Roadmap	2020
Community	
Women	
Improve the lives of one million women in Gap Inc.'s supply chain and other manufacturing and community settings through the Gap Inc. P.A.C.E. program	2020
Expand P.A.C.E. to a suite of learning programs that provides multiple entry points for addressing the needs of adolescent girls and women leaders	2020
Volunteering	
All teams have a Community Leader (CL), and all CLs organize and lead at least 3 volunteer projects per year	2018
All teams form a long-term relationship with one nonprofit partner to maximize volunteering impact	2018
Youth	
60% of This Way Ahead participants report increased on-the-job skills and confidence as a result of their internships	2018
65% of This Way Ahead interns are hired on as Gap Inc. sales associates upon the completion of their internships	2020
	*end of year

* Strategic suppliers accounted for 84 percent of our sourcing costs for branded apparel in 2015.

Progress Against Existing Goals

Factory Working Conditions	Completion Target	Progress (On-Track / Partial / Achieved)	Details
70% or more of factories in ILO Better Work markets participate in Better Work (BW) program	2014	Partial	Better Work and Gap Inc. assessed an average of 44% and 56% of factories in BW markets in 2014. BW participation was lower than targeted due to its slower-than-expected expansion in Vietnam and limited staff in Indonesia.
All factories Gap Inc. sources from in Bangladesh complete comprehensive fire and building safety inspections by July 2014, and have begun implementing remediation plans to ensure safety standards are met	2014	Achieved	Through the Alliance for Bangladesh Worker Safety, all factories completed inspections and began implementing remediation plans.
Build a team of dedicated supplier capability building experts who are fully trained and deployed	2015	Achieved	Developed teams of social and environmental capability building experts located in key sourcing countries.
Environment			
Complete supply chain water mapping and create a supply chain water strategy	2014	Achieved	Mapped water risks in key countries for fabric mills and denim laundries. Developed mill sustainability program and improved Water Quality Program.
Reduce absolute U.S. GHG emissions 20% from 2008 level	2015	Achieved	Achieved 33% reduction in U.S. GHG emissions by 2014.
Partner with 20 key fabric mill suppliers to establish social and environmental responsibility standards and improve performance	2015	Achieved	Helped 20 strategic mills in China, India, Pakistan and Taiwan conduct environmental self-assessments using the Sustainable Apparel Coalition's (SAC) Higg Index.
Employees			
Continue to build a globally effective, more agile organization by increasing the development of global leadership skills, and the enhanced utilization of metrics to manage talent and evaluate HR programs and processes	2014	Achieved	Analyzed metrics to evaluate key HR initiatives (e.g., confirmed equal pay for men and women globally and showed minimum wage increase improved retention, productivity and application volume). Continued to implement a talent dashboard for key workforce metrics (e.g., turnover, hiring), which is routinely used by senior leadership.
Become a more globally effective organization by moving to a global brands structure and providing leaders the opportunity to develop and grow through an array of international assignments	2014	Achieved	Continued to implement global brands structure, including laying the foundation for Old Navy's expansion into Mexico. Grew internal hires for international leadership roles by 33%, which provided global experience and development opportunities for leaders in key international markets.

Maintain and assess high levels of employee engagement through a more effective and frequent monitoring process to collect employee feedback	2014	Achieved	Eliminated annual performance ratings and launched GPS - Grow. Perform. Succeed., a new monthly system for manager-employee performance discussions. Maintained high employee engagement scores, exceeding external best-in-class benchmarks.
Community			
Women			
Increase vendor participation in the Gap Inc. P.A.C.E. program by expanding program to 40 key vendors	2015	Achieved	29 suppliers participated in P.A.C.E. by the end of 2014. 11 more committed in 2015 to date and are in various stages of implementation.
An additional 10,000 female garment workers complete P.A.C.E. program	2015	Achieved	10,691 additional women completed P.A.C.E. during 2013 – 2014.
Expand P.A.C.E. program into community settings by partnering with select NGOs to develop and implement modified P.A.C.E. community program—Target 3 community programs in 2013 and 10 community programs by 2015	2013 / 2015	Achieved	Piloted program in 24 villages in India and Cambodia in 2013. Expanded to operating 10 programs in nine countries as of 2015 to date.
Volunteering			
Increase the impact of employee volunteering by encouraging each employee team to identify a Community Leader, and then form a long-term partnership with one community organization. 1,200 Community Leaders identify long-term community partners	2013	Partial	677 Community Leaders identified long-term community partners by Q4 2013. Efforts have re-focused to identify the most qualified leaders, who will build strategic partnerships with organizations to maximize community impact and enhance long-term employee benefits.
Set a target of creating \$16 million in employee-driven value to the community in 2014. This includes employees' donations of time and money, and Gap Inc.'s financial match of both	2014	Achieved	Provided \$17,251,648 worth of employee time and money in 2014, including company match.
Youth			
Provide 95% of our key youth-serving community partners with support beyond cash grants	Ongoing	Achieved	Delivered support beyond cash grants to more than 95% of youth-serving partners in both 2013 and 2014.
Through Gap Foundation's community partners, serve at least 70,000 underserved youth and young adults per year	Ongoing	Achieved	Supported 90,000 underserved youth and young adults in both 2013 and 2014.

Assessing Materiality

We are prioritizing the opportunities and challenges in sustainability that matter most to our stakeholders and business.

In 2014, we embarked on an in-depth assessment, working with third-party experts to identify and evaluate an extensive list of environmental, social, governance, economic and other issues that could impact our company and the people our business touches around the world.

We collected input and feedback from a variety of external stakeholders and business partners across Gap Inc. In addition, we drew on the insights that we have gathered from years of visiting factories and interviewing the people who make our clothes, as well as from running our own employee programs. Our participation in various industry and multi-stakeholder initiatives added further perspective on key issues.

We evaluated issues based on the magnitude, likelihood and time horizon of their potential impacts on stakeholders and our business.

We evaluated issues based on the magnitude, likelihood and time horizon of their potential impacts on stakeholders and our business.

Through this process, we identified 15 sustainability-related aspects that guide our strategy and grouped them into three categories: Governance & Operating Context; Human Rights & Social Impact; and Resource Use, Scarcity & Impacts. The chart below shows these aspects and where they occur within and outside of Gap Inc.

Gap Inc. Global Sustainability Materiality Assessment

Materiality Category & Aspect	Aspect Boundary	
	Within Gap Inc.	Outside Gap Inc.
Governance & Operating Context		
Corporate Governance	Global Operations	Customers, Supply Chain, Communities
Country/Regional Legal & Economic Conditions	Global Operations	Supply Chain
Radical Transparency	Global Operations	Customers, Supply Chain, Communities
Technology & Product Innovation	Global Operations	Supply Chain
Resiliency	Global Operations	Supply Chain
Human Rights & Social Impacts		
Worker Rights & Well-being	Global Operations	Supply Chain
Income, Wages & Inequality	Global Operations	Customers, Supply Chain, Communities
Human Capital & Development	Global Operations	Supply Chain
Diversity & Inclusion	Global Operations	Supply Chain, Communities
Reputation & Consumer Engagement	Global Operations	Customers, Supply Chain, Communities
Resource Use, Scarcity & Impacts		
Water Stewardship	Global Operations	Customers, Supply Chain, Communities
Chemicals & Toxics Management	Global Operations	Customers, Supply Chain, Communities
Energy & Climate Stewardship	Global Operations	Customers, Supply Chain, Communities
Waste & End of Life	Global Operations	Customers, Supply Chain
Sustainable Materials Sourcing	Global Operations	Supply Chain, Communities

The Short Story

Stakeholders

- Issues such as climate change and worker safety demand that we join with others to forge solutions.
- A range of perspectives enables us to design initiatives that help bring about long-term, sustainable change.
- Our latest collaborations take an innovative approach to challenges facing our industry.
- One example is our partnership with Verité to better understand the experience of people who make our clothes.

Engaging Stakeholders

We know that we can't tackle many of the challenges we face on our own, and engaging stakeholders is a critical component of our social and environmental strategy throughout the world.

We work with highly diverse people and organizations to foster a clearer understanding of complex issues, as well as local conditions in the countries where we do business and our products are made. The insights we gain through this ongoing dialogue not only help us improve our programs, but enable us to continually refine our strategy as conditions and challenges evolve in our industry.

Some of our key stakeholders include: the people who make our clothes, customers, suppliers and factories, employees, unions, governments, multilateral institutions, non-governmental organizations, industry associations, investors, communities and others. We also belong to a number of organizations that enable us to more effectively collaborate with and learn from stakeholders. Multi-stakeholder initiatives that bring together organizations and people from different sectors play a key role in finding new approaches and creating collective action. A list of organizations and initiatives that we belong to or partner with can be found at gapinc.com/sustainability.

“To create the change we're after, we can't do this work alone. We partner with organizations large and small to make this work happen. The United Nations is one of them. For years, we've supported the UN Global Compact and its guiding principles.”

– **Art Peck**, CEO, Gap Inc.

We develop issue maps and models to identify and prioritize the issues that matter most to stakeholders and our business. These tools take into account such factors as the level of public awareness about an issue, expert opinion and consensus, the magnitude and timing of impact, expectations for our business and our ability to influence issues.

We are evolving our strategy for engaging stakeholders to take a more proactive, systemic approach that addresses root causes and better accounts for all of the people and organizations that may be affected by an issue. We are working to balance our efforts to respond to specific issues with our overall goal to help build a more sustainable garment industry.

A key aspect of our stakeholder strategy includes cultivating medium and long-term thinking in our business and integrating sustainability more deeply into our business strategy. We are also creating solutions that matter most to workers and contribute most directly to improving their lives. Examples include our partnership in Better Work's Workplace Cooperation Program and support for the Project on Sustainable Labor Practices in Global Supply Chains, as described on page 56.

Ensuring Strong Governance

Strong governance is essential to the work of sustainability. These efforts start with a commitment from our leadership, whose input and oversight play a critical role in driving our progress.

For us, good governance begins with a strong Board of Directors that has an independent perspective on our business and company management, including our approach to creating social and environmental change.

We recognize the value that diversity and women's leadership brings to our Board and company.



Gap Inc.'s Board is responsible for oversight of the business, affairs and integrity of the company, determination of the company's mission, long-term strategy and objectives, and oversight of the company's risks, while evaluating and directing implementation of company controls and procedures.

The Board consists of eleven members, including nine independent directors and an Independent Chairman, with women holding four of eleven seats on our board, and meets at least five times per year. It has three committees: Audit and Finance, Compensation and Management Development, and Governance and Sustainability.

Sustainability

Our Board's Governance and Sustainability Committee oversees Gap Inc.'s sustainability programs and practices.

Dan Henkle, Senior Vice President, Global Sustainability and President, Gap Foundation, updates and engages the Committee on our sustainability programs and progress quarterly. They regularly discuss our efforts to address key social and environmental issues for our business, including our programs to help improve human rights, working conditions and environmental sustainability at the factories that make our clothes.

Dan reports to Bobbi Silten, Executive Vice President, Global Talent & Sustainability, who reports directly to Gap Inc. CEO Art Peck.

Our Environmental Council plays an important role in embedding sustainability into our business by considering new initiatives and reviewing progress on existing goals and programs. The council is sponsored by an Executive Vice President and includes other functional leaders and subject matter experts across the company.

We form cross-functional steering committees of senior leaders to oversee key initiatives. Recent examples include our initiative to expand opportunities for women and decision to source products in Myanmar.

Acting Ethically

Our ethics are ingrained in the culture of Gap Inc. and inform how we run our business each day. We continually review and update our practices as our business evolves.

All of our people are required to complete training on and uphold our ethical standards and compliance procedures. Our Code of Business Conduct (COBC) serves as our ethical compass for the commitment we make to our stakeholders, customers and one another.

Our employees are encouraged to use our open door process for discussing any concerns with their supervisor, next level manager or human resources representative. Employees may also contact our Global Integrity team, who oversees our COBC program.

A confidential COBC hotline, email box and web portal are also available 24 hours a day, seven days a week to employees and anyone who conducts business with Gap Inc. or is affected by our business. We have investigative teams that process and address

complaints received through any channel, including our COBC hotlines. All information is logged and cases are addressed and closed.

We need to be diligent about corruption risks, particularly in developing countries with limited rule of law. We have a company-wide program for monitoring, enforcing and addressing any issues related to our Anti-Corruption Policy, which combines elements from our COBC with anti-bribery requirements under the U.S. Foreign Corrupt Practices Act (FCPA) and other similar laws around the world. The policy and related training programs help employees recognize and avoid corrupt business practices in all aspects of Gap Inc.'s business.

Our Code of Business Conduct serves as our ethical compass for the commitment we make to our stakeholders, customers and one another.



Managing Risks

Our Internal Audit team conducts in-depth risk assessment interviews annually with more than 50 of the company's top executives and board members. A subset of about 20 people is interviewed quarterly to track changes in the company's risk profile.

At the asset level, our Business Continuity Planning (BCP) team analyzes, prioritizes and helps to mitigate risks resulting from extreme weather, natural hazards and other external events. BCP relies on predictive and actual models from the National Oceanic and Atmospheric Administration (NOAA) and other agencies and GoogleEarth tracking tools to track and evaluate potential impacts to Gap Inc. facilities.

Our sustainability and sourcing functions assess and manage risks in our supply chain and develop country-specific approaches to evaluating and addressing risks. Learn more in the section on Improving Factory Working Conditions on page 23.



Fabric mills and denim laundries play an essential role in producing your clothes, but they also use large quantities of water and chemicals to dye and finish fabrics.

From Concept to Reuse: Mapping Our Supply Chain

A product has a whole life – both before it hits our stores and after it leaves our hands and is worn by our customers. Each stage, from the first sketches to where it ends up after our customers clean their closets, offers opportunities and risks for our business and all those who are touched by our business.

1 Product Design & Sourcing

A designer's creative vision for your next pair of jeans can ultimately end up affecting people and the environment. And as they bring this vision to life by placing orders with independent suppliers, our production and sourcing teams have significant influence over who makes your clothes – which affects our ability to improve working conditions inside factories as well as our environmental footprint. Through collaboration between our sourcing and sustainability teams, we can make more sustainable choices, even at this early point in the process of making our clothes.

2 Raw Materials

Check your tags – most of our products include some cotton, and its production affects both the environment and people. Farming and processing cotton typically involves the use of large quantities of water as well as chemicals, and often takes place in regions facing water and climate risks. In addition, cotton provides a livelihood for many people throughout the world, including migrant laborers, and there is a need to protect their health and ensure that they work in safe, fair conditions. We are developing a strategy

to address these issues that connects with and complements our strategy for ensuring that people have access to clean, safe water.

3 Fabric Mills & Denim Laundries

Both fabric mills and denim laundries play an essential role in producing your clothes, but they also use large quantities of water, and the chemicals used to dye and finish fabrics pose a risk to local waterways. We have programs in place both to improve water practices at fabric mills and ensure that washing your denim does not contaminate local waterways or harm local communities. In addition, we are working to eliminate the use of hazardous chemicals. And through our Women + Water strategy, we are working to improve women's access to safe, clean water sources.

4 Garment Factories

Workers at garment factories bring the designs for our clothing to life, and every shirt or pair of jeans that we sell has been touched by many people's hands. Garment factories are a critical source of jobs for many people in developing countries, but the apparel industry still



We have been working for more than two decades to improve working conditions in the factories that make our clothes.

faces challenges in protecting worker safety and human rights. We have been working for more than two decades to improve working conditions in the factories that make our clothes. Most recently, we have done a thorough assessment of our program and have introduced new approaches, such as a partnership with Verité that focuses on listening to worker voices. We are also helping factories assess and reduce their environmental footprint, including conserving the energy used to light facilities and operate equipment.

5 Logistics & Distribution

Getting our clothes to one of our stores – or your front door – can involve complicated logistics and contributes to our environmental footprint. We ship products through a combination of sea,

air, truck and rail from factories to our distribution centers and then on to stores or directly to customers. We focus on finding the optimal mix of shipping options based on speed, cost and sustainability and have taken steps to conserve energy at our distribution centers, which are the largest facilities we own and operate.

6 Stores

Our stores express who we are – from our style to our commitment to operating in a way that cares for both people and the environment. We have raised the minimum wage for over 60,000 hourly employees and are improving scheduling practices to help attract and retain top talent and enable people to work at their best. We are also looking for new ways to mitigate our stores' environmental footprint.

Through energy-saving LED lighting and other measures, we have improved our energy efficiency, and we are working toward an ambitious goal to divert waste.

7 Consumer use

The story of our clothes doesn't end after they are made and sold. How our customers wear, care for and discard their clothes accounts for a share of our products' total environmental footprint. Increasingly, our customers are becoming aware of such energy-saving measures as washing clothes in cold water – which can reduce energy consumption by up to 90 percent – and using front-load washing machines, which can cut water use by up to half.

Many of our customers also seek to reduce waste by donating their clothes or finding ways to re-use them – and our brands have run a variety of campaigns to support these efforts. One example was an initiative by Gap called “Recycle Your Blues,” which encouraged customers to drop off their old jeans at our stores for use as housing insulation in underserved communities. We are continuing to explore ways to encourage these kinds of behaviors, which will help us deepen our relationship with customers and join with them in our efforts to create a healthier environment.

Our stores express who we are – from our style to our commitment to operating in a way that cares for both people and the environment.





Improving Factory Working Conditions

Every piece of clothing that we sell is created by someone's hands – many of our products are touched by multiple people, most likely women, who sew a zipper on a pair of jeans or reinforce the seam of a shirt.

In fact, more than one million people work in the factories where our products are made. Every day we pore over creative ideas for our clothes, spending time on every detail. But without the people who make them, this vision would never come to life.

We continue to strive to ensure that – as they fill such an important role for our company – the people who make our clothes work in safe, fair conditions and that they are treated with dignity and respect. For many of them, working in the garment industry provides a critical opportunity to create a better life for themselves and their families. Yet local infrastructure and rule of law can be lacking, and the industry still faces challenges in protecting worker safety and human rights. As one of the world's largest apparel retailers, we recognize that we have a responsibility to address these issues, and we believe that

our business can only thrive when the people who make our clothes have the chance to do the same. We also believe that like us, our customers care about the conditions under which their clothes are made and the lives of the people who make them.

This sense of connection unlocks new possibilities for change. When factory employees are treated fairly and work in safe conditions, they can perform at their best, helping us create better products and better serve our customers. When customers, in turn, share their expectations and feedback with us, they help to make us a stronger company, one that can play a part in leading the industry toward further improvements.

We continue to strive to ensure that the people who make our clothes work in safe, fair conditions and are treated with dignity and respect.



The Short Story

Working Conditions

- We work with governments, NGOs, trade unions and others to forge innovative solutions to systemic issues.
- A new partnership with Verité focuses on listening to feedback from the people who make our clothes about their work experience.
- Collaboration between our sustainability and sourcing teams is driving greater progress.
- By the end of 2020, we have set a goal for all strategic suppliers to be rated green or yellow.

We have significantly expanded our efforts since we wrote our first vendor guidelines in 1992 – and in the past few years, we have done a thorough reassessment of our approach, laying the groundwork for further progress. We have introduced a range of improvements as well as innovative approaches to better understand the experience of the people who make our clothes and make sure that their voices are heard.

Protecting human rights and addressing systemic challenges

All of our efforts are guided by our commitment to honoring and protecting the human rights of the people who make our clothes, as spelled out in our Human Rights Policy. This policy establishes key principles that guide how we run our business, as well as the core issues that we work to address, such as the prohibition of any and all forms of child or forced labor. In addition, we continue to maintain our own team of specialists who live and work in a wide range of countries to ensure that our Code of Vendor Conduct is more than a document – it helps to create real progress through our actions.

Our team talks extensively with workers at factories where our clothes are made, and we follow up on the issues we find. We focus much of our time on complex issues such as

WORKING CONDITIONS

300 SUPPLIERS

In 2014, we purchased over \$6 billion worth of branded clothing from more than 300 independent suppliers and 1,000 factories.

tackling the use of unauthorized subcontracting, fire and safety issues inside factories, freedom of association and excessive overtime.

Because many of these issues touch on systemic challenges, we know that we can't tackle them on our own and have partnered with governments, NGOs, trade unions and other brands and retailers to come up with innovative solutions. A prime example is the Better Work program, a multi-stakeholder collaboration led by the International Labor Organization (ILO) to create a joint approach to monitoring factories. We work in close partnership with the ILO, sitting on its advisory board and piloting the Better Work program in new countries, including Bangladesh.



We have introduced a range of improvements as well as innovative approaches to better understand the experience of the people who make our clothes.

Designing new approaches

Despite making progress, we know that we must continually raise the bar on our efforts, as the pace of production gets faster, competition intensifies and demand for lower-cost, fast fashion remains strong. In other words, the challenges we face continue to become more complex.

Over the past few years, we have invested in doing a deep review of our work and designing new approaches. For example, we worked with an outside consultancy to examine our supplier sustainability program and make numerous improvements. We have developed a country-specific approach to assessing risk and creating strategies to improve our work in factories. In Vietnam, for example, we are working alongside the

government, ILO, development agencies and other companies to build a responsible apparel industry.

One of our most innovative programs centers on a partnership with Verité – a leading non-governmental organization (NGO) focused on ensuring that people work under safe, fair, and legal conditions. Together we are expanding on traditional approaches to improving working conditions by measuring and improving how much workers feel valued and engaged at work. Our collaboration centers on eliciting and listening to workers' own voices: How are they treated? Do they feel negatively or positively about their jobs? What would they like to see improved?

Most of our suppliers are large, multinational businesses. Many actively monitor their labor practices, provide health and safety training to workers and have programs to improve their environmental sustainability.

By understanding workers' points of view and addressing issues from their perspective, we see new opportunity to improve their experience of work. In addition, we will be sharing some of our own human resources best practices with our suppliers, so that they can learn from what we have found to be successful at Gap Inc. We aim to help the factories where our products are made become preferred employers in the communities in which they operate, creating business benefits such as higher retention and improved productivity.

We are also supporting another program that focuses on empowering workers through our adoption of ILO Better Work's Workplace Cooperation Program, which aims to provide workers and management with the skills needed to jointly resolve workplace issues and engage in respectful collaboration. In 2015, we provided ILO Better Work with a grant to scale this important program, and will soon use this curriculum as the basis for our updated capability building program. We believe that focusing on improving dialogue and relations will help workers and management prevent future labor disputes, resolve problems more effectively, give greater voice to workers and improve productivity and competitiveness.

Beyond such programs, we have also worked to make improvements within Gap Inc. In order to create lasting, wide-scale change to working conditions inside factories, we recognize that our sustainability team can't act alone, but must be joined by our sourcing team and key players from each of our brands. These teams are finding new ways to

FACTORY WORKING CONDITIONS

1,000
FACTORIES

We consistently visit the factories that make our clothes – about 1,000 each year. Through innovative partnerships and as a founding member of the Alliance for Bangladesh Worker Safety, we're forging industry-wide change.

collaborate every day, including the setting of shared sustainability goals. They are also taking an integrated approach to measuring the performance of our suppliers. And they are working with fewer and more preferred suppliers with whom we can cultivate long-term, close relationships that enable us to create greater change.

Business integration has also helped spur progress through our P.A.C.E. program, which has been embraced by our suppliers and brings benefits to multiple stakeholders. Since 2007, the Gap Inc. P.A.C.E. program has provided more than 30,000 women with the opportunity to gain skills and confidence to advance both at work and in life. In September 2015 we committed to greatly expand the program, setting a goal to educate one million women throughout our supply chain and in communities around the world by the end of 2020.

One of our most innovative programs centers on eliciting and listening to workers' voices – how are they treated? Do they feel negatively or positively about their jobs?



More than 20 years since we began our journey to improve working conditions, we are still learning – and facing new challenges. For example, we documented more red-rated factories in the 2013-2014 time period than in 2011-2012 (red is our lowest rating and signals that immediate action is required at a factory to address one or more serious issues). This finding spurred us to investigate further and take steps to reverse this trend. For the first time in 2014, our sustainability and sourcing teams came together to set – and achieve – a shared goal to address issues at red-rated factories. We succeeded in resolving 96 percent of critical issues and 81 percent of other open issues at all low-performing factories in this category.

In addition, we are continuing to invest in new programs such as our work with Verité, and we have evolved our rating methodology to more accurately assess factory performance and focus our time on the most critical issues. We have set a goal that all strategic suppliers will have a sustainability rating of green or yellow by the end of 2020. These suppliers accounted for 84 percent of our sourcing costs for branded apparel in 2015.

While the world has changed in many ways since we started this important work, what hasn't changed is the value of the very human effort that goes into making our clothes. The people who bring our designs to life play a critical role in enabling us to fulfill our potential as a company, and we aim to create that same opportunity for them. The challenges we face are complex, and we know that we have more work to do, but we also see even greater possibilities to unlock positive change in the future.

“When we improve working conditions and create opportunities for the people who make our clothes, we enhance our ability to deliver great products to our customers. **Our sourcing and sustainability teams work together seamlessly to bring benefits to everyone**, from our partners to the people whose lives we touch in communities throughout the world.”

– **Sonia Syngal**, Executive Vice President, Global Supply Chain and Product Operations

Respecting Human Rights in Our Supply Chain

We could not succeed as a company without the people who make our clothes, and we are committed to ensuring that they work in safe, fair conditions and are treated with dignity and respect.

The Short Story

Human Rights

- Garment industry jobs help many people build a better life, but some regions suffer from a lack of infrastructure or rule of law.
- We focus on talking with people who make our clothes to learn of issues that need to be addressed.
- We strictly prohibit child or forced labor — and immediately act in rare instances when they arise.
- We work to ensure that people are protected from discrimination or mistreatment, enjoy the right to freedom of association and can raise issues at work.

At the core of these efforts is our work to protect workers' human rights. We have developed our approach based on years of assessing factories, dialogue with stakeholder organizations and interactions with factory management and workers at the factories that supply our branded clothing.

Gap Inc.'s Human Rights Policy documents and guides our commitment to respect internationally recognized human rights and avoid involvement in human rights abuses. We support the principles contained within the Universal Declaration of Human Rights (UDHR); the U.N. Global Compact; the OECD Guidelines for Multinational Enterprises; and the International Labor Organization's (ILO) Core Conventions.

To date, we have largely focused on human rights issues at garment factories where we have direct contractual relationships and greater influence to create improvements. We are evolving our human rights strategy to address human rights issues in other parts of our supply chain, including those areas where we have less direct influence but nonetheless see opportunities to create positive change.

Below are key human rights issues that we address on an ongoing basis.

Child Labor and Young Workers

Gap Inc. does not tolerate the use of child labor under any circumstances. The use of child labor is explicitly prohibited by our Human Rights Policy and our Code of Vendor Conduct (COVC). Our COVC establishes requirements that all factories must meet to do business with Gap Inc. Both policies are available at gapinc.com/sustainability.

While cases of child labor are very rare in the factories that make our branded clothing, we take immediate action to resolve any cases that we encounter. We also work to ensure that factories respect local laws and international standards related to employing younger workers who are not children.

Child labor is a serious, complicated issue that tends to be more prevalent in places with high rates of poverty and limited opportunities. Young people may look for or be forced to work for many reasons and often sacrifice their education and chance to build a better life.

Our field team interviews workers and management about recruitment and hiring, labor practices and working conditions for young workers.

During factory visits, our field team interviews workers and managers about recruitment and hiring, labor practices and working conditions for young workers. They check for lawful, unaltered documents to verify workers' ages, since workers can go to great lengths to obtain counterfeit documents. Our team also monitors whether factories are upholding labor laws and standards for legal young workers.

In the rare event that we encounter child labor at an approved factory, we take immediate action to resolve the issue, including:

- Removing workers from the factory
- Making sure workers have access to education, receive an ongoing wage and are guaranteed a job if they choose to work at the factory when they are older
- Requiring the offending supplier to pay for all remediation costs

Uzbek Cotton

It has been well established that the government of Uzbekistan has long relied on forced child labor to harvest the country's cotton. We have worked to educate and influence our suppliers and factories on this issue, making it clear that we will not accept any clothing manufactured with fabrics that were knowingly made from Uzbek cotton.

Results

Most factories complied with Gap Inc.'s COVC requirements prohibiting child labor and regulating practices for young workers during 2013 – 2014. We encountered a limited number of cases where factories needed to take corrective actions to address compliance issues.

Child Labor and Young Workers: % of Factories Not Complying with Gap Inc. Requirements

Code of Vendor Conduct (COVC) Issue	% of Factories			
	2011	2012	2013	2014
Did not comply with all laws or international standards for child or under-age labor				
Top 3 Sourcing Regions	5.6%	6.1%	5.0%	3.1%
All Sourcing Regions	4.5%	4.9%	4.3%	2.8%
Employed workers below legal minimum age or 15 years old (whichever is higher)				
Top 3 Sourcing Regions	0.7%	0.5%	0.6%	0.3%
All Sourcing Regions	0.6%	0.4%	0.5%	0.4%
Number of Factories Assessed				
Top 3 Sourcing Regions	984	955	952	968
All Sourcing Regions	1255	1178	1152	1083

Child Labor and Young Workers: Examples of Issues and Corrective Actions at Garment Factories (2013-2014)

Code of Vendor Conduct (COVC) Issue Examples:	Corrective Actions by Factories Included:
Did not conduct health checks for young workers	Perform annual medical checks
Did not register young workers with the local labor bureau	Properly register young workers with local government
Young workers exceeded overtime limits or worked the night shift outside of allowed hours	Monitor overtime hours for young workers on a weekly basis; Limit hours to approved work times
Young workers engaged in hazardous or performed unpermitted work	Post notices of social protections for young workers; Only employ workers 18 years of age or older

Forced Labor

The International Labor Organization (ILO) estimates that more than 20 million people around the world are forced to work against their free will. This issue has received heightened attention over the past several years due to the innovative and diligent work of non-governmental organizations, governments, multilateral organizations, media and companies.

At Gap Inc., we explicitly prohibit the use of forced labor in the making of our products through our Code of Vendor Conduct and our Vendor Compliance Agreements, and we actively work against this violation of fundamental human rights.

We explicitly prohibit the use of forced labor in the making of our products through our Code of Vendor Conduct and our Vendor Compliance Agreements, and we actively work against this violation of fundamental human rights.

At garment factories, our field team interviews both workers and management and reviews records to help ensure that workers:

- Have voluntarily agreed to all employment terms
- Are free to end their employment if and when they choose
- Can freely enter and exit their work spaces and living quarters

We welcomed the California Transparency in Supply Chains Act, enacted in 2012, which requires companies of a certain size to publicly communicate their efforts to identify and eliminate forced labor in their supply chains. We have a policy to comply with this legislation, which is an important lever in the global fight against human trafficking.

We also collaborate with stakeholder networks in key sourcing countries to monitor and address cases of forced labor. Learn more about our work to address the Sumangali forced labor scheme in southern India at gapinc.com/sustainability.



Results

Most factories complied with Gap Inc.'s COVC requirements prohibiting forced labor during 2013 – 2014. We encountered a limited number of cases where factories needed to take corrective actions to address compliance issues.

Forced Labor: % of Factories Not Complying with Gap Inc. Requirements

Code of Vendor Conduct (COVC) Issue	% of Factories			
	2011	2012	2013	2014
Used involuntary labor				
Top 3 Sourcing Regions	0.2%	0.3%	0.0%	0.4%
All Sourcing Regions	0.2%	0.3%	0.0%	0.6%
Number of Factories Assessed				
Top 3 Sourcing Regions	984	955	952	968
All Sourcing Regions	1255	1178	1152	1083

Forced Labor: Examples of Issues and Corrective Actions at Garment Factories (2013-2014)

Code of Vendor Conduct (COVC) Issue Examples:	Corrective Actions by Factories Included:
Workers required to work overtime and on weekends if they could not meet their production targets	Stop requiring overtime work on weekends
Holding original certificates of employees that could restrain their freedom to find other work	Released all original certificates to employees

Discrimination

We are committed to ensuring that the people who make our clothes are not subject to any form of discrimination. And we are sensitive to both overt and subtle types of bias: roughly 80 percent of the people who make our clothes are women, while managers and supervisors are often men. Along with the employment of migrant workers and the diverse ethnic backgrounds of the people who work in garment factories, these circumstances can raise the risk of gender and ethnic discrimination.



We are committed to ensuring that the people who make our clothes are not subject to any form of discrimination.

We require factory managers to treat the people who make our clothes equally and fairly, without consideration of workers' gender, ethnicity or sexual orientation in hiring, pay and promotion decisions. Our field team interviews workers and checks for any signs of discrimination in hiring criteria, as well as contract terms, labor practices, payroll records, tests or medical exams workers may be asked to take. Our guide for assessing factories also identifies common risks and best practices for pregnant or nursing women, including: re-arranging working hours; adjusting overtime hours; and offering greater flexibility for break times.

Results

Most factories complied with Gap Inc.'s COVC requirements prohibiting discrimination during 2013 – 2014. We encountered a limited number of cases where factories needed to take corrective actions to address compliance issues.

Discrimination: % of Factories Not Complying with Gap Inc. Requirements

Code of Vendor Conduct (COVC) Issue	% of Factories			
	2011	2012	2013	2014
Had discriminatory distribution of wages and benefits				
Top 3 Sourcing Regions	0.1%	0.0%	0.2%	0.2%
All Sourcing Regions	0.2%	0.3%	0.5%	0.5%
Had discriminatory hiring policy				
Top 3 Sourcing Regions	1.6%	2.0%	2.4%	1.9%
All Sourcing Regions	2.6%	2.2%	2.0%	1.9%
Number of Factories Assessed				
Top 3 Sourcing Regions	984	955	952	968
All Sourcing Regions	1255	1178	1152	1083

Discrimination: Examples of Issues and Corrective Actions at Garment Factories (2013-2014)

Code of Vendor Conduct (COVC) Issue Examples:	Corrective Actions by Factories Included:
Different contract terms were given to female and male workers; Pregnant workers' contracts were not renewed	Committed to provide the same contract terms to all female and male workers; Provided workers with copies of their employment contracts
Gender and age factored into hiring decisions (e.g., female applicants asked if they were pregnant)	Conducted training on policies and practices for hiring, maternity leave and breast feeding and ensured policies were clearly communicated to and understood by supervisors and workers
Pay was deducted for time spent breast feeding	Paid complete production bonuses to workers who were breast feeding

Working Hours

Excessive working hours is one of the most common and persistent issues we encounter at the factories that make our branded clothing. This issue is complicated and difficult to resolve for a variety of reasons, including:

- Factory managers may request overtime to meet tight deadlines or boost sales
- Many workers choose to work more hours to increase their pay
- Purchasing practices such as rush orders can lead to more overtime

Workers must be allowed to refuse overtime without any threat of penalty or punishment and should not be required to work more than six days in a row. We require factories to take corrective actions to limit excessive overtime, which can include analyzing the root causes of issues, adjusting production schedules and improving management systems.

Workers must be allowed to refuse overtime without any threat of penalty or punishment.

Results

The issues below were identified at factories that supplied our branded clothing in 2013 – 2014.

Working Hours: % of Factories Not Complying with Gap Inc. Requirements

Code of Vendor Conduct (COVC) Issue	% of Factories			
	2011	2012	2013	2014
Did not allow workers to refuse overtime				
Top 3 Sourcing Regions	1.6%	2.5%	3.3%	1.7%
All Sourcing Regions	2.2%	2.8%	3.3%	2.3%
Did not provide 1 day off in 7				
Top 3 Sourcing Regions	17.7%	19.5%	27.5%	26.3%
All Sourcing Regions	15.5%	17.7%	24.1%	25.9%
Number of Factories Assessed				
Top 3 Sourcing Regions	984	955	952	968
All Sourcing Regions	1255	1178	1152	1083

We identified a variety of reasons behind these issues, including:

- Worker strikes or “hartals” in Bangladesh reduced working days and led to more overtime hours.
- Country issues in Bangladesh and China caused orders to shift to Vietnam from 2013, which led to capacity issues and more overtime violations.
- The rise of rural industrial areas in Vietnam contributed to labor shortages and overtime in urban factories.

We are working to address overtime violations that pose greater risks to workers’ rights and well-being by evolving our factory ratings system and embedding sustainability more deeply into our sourcing function and practices. Our updated factory ratings system, implemented in the second half of 2015, identifies and increases penalties for more serious violations. More than 24 hours of overtime per week is penalized as a severe issue, and overtime greater than 32 hours per week is considered a critical violation, the most serious level. We also recognize that further integrating sustainability into our sourcing practices can play a key role in limiting any contribution our purchasing practices may have on excessive overtime.

Wages and Benefits

An important area of focus for us has been ensuring that the people who make our products are paid what they are owed for their work. Factories may fail to fulfill this obligation for a variety of reasons, such as not paying sufficient overtime premiums or making illegal deductions from workers’ pay. In some cases, underpayments can be hard to detect or go unnoticed by workers, as pay calculations are complicated or may not be clearly communicated.

We have advocated to raise the legal minimum wage for workers in certain sourcing countries, including Cambodia and Myanmar.

To ensure workers receive the full wages and benefits they have earned, our field team reviews factory records, interviews management and workers, and provides training on policies and practices. This includes assessing such factors as production quotas and piece rates, wage calculations and statements, contract terms, and leave and holidays.

We understand that companies like ours can play a role in influencing government policies on wages and benefits. We have advocated to raise the minimum wage for workers in certain sourcing countries, including Cambodia and Myanmar.

Results

The issues below were identified at factories that supplied our branded clothing in 2013 – 2014.

Wages and Benefits: % of Factories Not Complying with Gap Inc. Requirements

Code of Vendor Conduct (COVC) Issue	% of Factories			
	2011	2012	2013	2014
Did not pay overtime and incentives as required				
Top 3 Sourcing Regions	18.1%	20.1%	19.4%	16.8%
All Sourcing Regions	15.5%	17.7%	17.4%	17.9%
Did not provide understandable wage statement				
Top 3 Sourcing Regions	15.0%	15.5%	16.3%	10.3%
All Sourcing Regions	14.3%	15.2%	16.1%	12.9%
Number of Factories Assessed				
Top 3 Sourcing Regions	984	955	952	968
All Sourcing Regions	1255	1178	1152	1083

Our field team informed factory management about the lack of compliance with our COVC requirements and the expectation that factories would take corrective actions to address these issues.

We are supporting several efforts that we hope may help enable factories' to pay higher wages to garment workers. These include partnering on the Project on Sustainable Labor Practices in Global Supply Chains and promoting more sustainable, efficient garment factories and mills in Southeast Asia.

Humane Treatment

Garment manufacturing can be a demanding business that puts stress on workers and supervisors to meet production targets and other requirements. Supervisors may not have enough training or experience in managing this pressure, constructively communicating with workers or understanding the nuances of appropriate behavior in the factory environment.

Our field team observes how supervisors interact with workers and interviews workers to check for any signs of verbal, psychological or physical mistreatment. These could include

behavior or threats that punish or coerce workers or contribute to an intimidating or humiliating working environment. Factories are expected to provide channels for workers to express any grievances about the way they are treated, as well as training on how to use them. They are also required to have a disciplinary process and take appropriate action to address issues.

Results

The issues below were identified at factories that supplied our branded clothing in 2013 – 2014.

Humane Treatment: % of Factories Not Complying with Gap Inc. Requirements

Code of Vendor Conduct (COVC) Issue	% of Factories			
	2011	2012	2013	2014
Did not prohibit verbal or psychological abuse or coercion				
Top 3 Sourcing Regions	8.6%	10.6%	9.2%	9.3%
All Sourcing Regions	9.1%	10.0%	8.6%	10.6%
Did not prohibit physical punishment or coercion				
Top 3 Sourcing Regions	0.5%	0.4%	0.4%	0.5%
All Sourcing Regions	0.5%	0.3%	0.3%	0.6%
Number of Factories Assessed				
Top 3 Sourcing Regions	984	955	952	968
All Sourcing Regions	1255	1178	1152	1083

Humane Treatment: Examples of Issues and Corrective Actions at Garment Factories (2013-2014)

Code of Vendor Conduct (COVC) Issue Examples:	Corrective Actions by Factories Included:
Supervisors engaged in improper verbal or physical conduct toward workers	Developed a policy on appropriate behavior to protect workers' rights and well-being
	Conducted training sessions for all supervisors and staff to stop and prevent cases of improper verbal or physical treatment of workers
	Implemented more effective communication channels between workers and management



Our field team observes how supervisors interact with workers and interviews workers to check for any signs of verbal, psychological or physical mistreatment.

Fire & Building Safety

Fire and building safety in the global apparel industry depends on a number of factors, including local laws and regulations, building practices, the technical capabilities of local experts and the actions of suppliers and brands. Unique issues come up in different parts of the world – for example, in Bangladesh, factories tend to be housed in taller buildings, which complicate exit routes in the case of urgent situations.

Our field team works to improve fire and building safety by checking that factories:

- Maintain sufficient fire alarms, clearly marked exits and emergency lighting that allow workers to safely evacuate
- Conduct evacuation drills
- Keep all doors, aisles, exits and stairwells clear, accessible and unlocked during working hours
- Maintain and charge fire extinguishers that are visible and accessible to workers in all areas of the factory

In Bangladesh, we are helping to improve fire and building safety in the country's garment industry through our role in the Alliance for Bangladesh Worker Safety. Learn more in the section on Designing Country Strategies on page 57.



Freedom of Association

We feel strongly that the people who make our clothes have a right to advocate for their rights and well-being. Many have limited experience working at garment factories or exercising their rights, and they often have few other options for earning steady income to support themselves and their families. In addition, the limited rule of law in many developing countries often provides fewer protections for workers' rights.

We understand that workers' opportunities to voice their concerns often depends on other factors, including good relations with management and the support of other workers or a trusted intermediary. We support the rights of workers and employees to freedom of association and collective bargaining through our Human Rights Policy and Code of Vendor Conduct.

We encourage open dialogue between workers and managers, as well as collaboration with workers' rights groups and trade unions. By partnering with the ILO and other stakeholders, we support training and capability building programs such as Workplace Coordination Committees.

We encourage open dialogue between workers and managers, as well as collaboration with workers' rights groups and trade unions.



Grievance Mechanisms

We strive to ensure that the people who make our clothes can raise concerns about any improper labor practices or working conditions and seek appropriate remedy. We require factories to provide a confidential and anonymous channel for workers to express any grievances that protects them from retaliation. Factories must have a process for addressing grievances in a timely manner that includes documenting grievances and actions that management takes to address them. Our field team trains factory workers and managers on establishing and using grievance mechanisms. If our team identifies any issues, we require factories to implement corrective action plans.

Learn more about how we have helped factories implement grievance mechanisms in Bangladesh and Myanmar in the section on Designing Country Strategies on page 57.

Going forward, we are focusing on improving factories' capabilities to implement properly functioning grievance mechanisms and ensure workers are able to use them to advocate for their rights and well-being. We are also evaluating ways to use mobile technology to help protect human rights and empower the workers who make our clothes. For example, such technology could offer an anonymous platform for workers to provide direct, real-time feedback about labor practices and could educate workers about their rights.

We support factories in creating effective grievance mechanisms to ensure that workers can advocate for their rights and well-being.

Driving Business Integration

For more than two decades, our team of specialists has strived to improve working conditions for the people who make our clothes. While we have made significant progress, we also realize that we have to go further.

To create lasting, wide-scale change, our sourcing team and brands also need to play active roles. By doing so, they are enabling us to integrate sustainability more deeply into our business, a key stage in our strategy to create greater impact.

Our teams are finding new ways to collaborate every day, including the setting of shared sustainability goals. They are also taking an integrated approach to measuring the performance of our suppliers across all dimensions that are important to us, from working conditions to environmental performance.

To support this work, we created a sustainability forum at Gap Inc. that brought together some of our most senior leaders across the company to explore new ways of collaborating. The forum established a new way of working across our teams – from infrequent, formal gatherings to day-to-day partnership across a wide variety of issues. We're now exploring how to take this collaboration to the next level, including joint ownership of long-term, ambitious goals that are approved and owned by leaders throughout the business.

For the first time in 2014, our sustainability and sourcing teams set – and achieved – shared goals, including:

- 100 percent adherence to our updated Unauthorized Subcontracting (UAS) policy
- Closing of 90 percent of critical issues and 50 percent of other open issues at 181 low-performing red factories
- Development of complementary 3-year plans for both teams for 2015-2017

Focusing on Strategic Suppliers

Building closer relationships with a smaller, select group of suppliers plays a key role in embedding sustainability into our sourcing practices and supplier relationships. This approach allows us to focus our resources on suppliers that have the greatest alignment with our sustainability and business goals. In addition, we believe these partnerships lead suppliers to take more ownership and initiative, which translates into better results for the people who make our clothes and our business.

Building closer relationships with strategic suppliers plays a key role in embedding sustainability into our sourcing practices.



Our approach includes creating a Supplier Leadership Program to support and reward suppliers who meet our business and sustainability goals. The program will provide training and incentives to suppliers that meet targets for improved social, environmental and product performance. Over time, we believe that suppliers and factories that take ownership of their sustainability programs will realize business benefits and thereby need fewer external assessments and incentives.

Results

We sourced 52 percent of the unit volume of our branded clothing from factories of preferred suppliers in our top three sourcing regions as of the end of fiscal 2014. The corresponding figure for factories of all preferred suppliers of our branded clothing was 56

percent of unit volume. We plan to use these figures as a baseline for tracking our share of sourcing from preferred suppliers going forward.

Our increasing focus on a smaller set of preferred suppliers is also reflected in a 14 percent reduction in the number of assessed factories that supplied our brands from 2011 – 2014. This data also reflects consolidation in the overall apparel manufacturing sector.

Assessed Factories Supplying Branded Apparel to Gap Inc.

Region	2011		2012		2013		2014		% Change 2011-14
	# of factories	% of factories	# of factories	% of factories	# of factories	% of factories	# of factories	% of factories	
Top 3 Sourcing Regions	984	78%	955	81%	952	83%	968	89%	-2%
All Sourcing Regions	1255		1178		1152		1083		-14%

Eliminating Unauthorized Subcontracting (UAS)

While subcontracting is a common practice in the apparel industry, engaged in by suppliers to manage production capacity and fulfill large orders, it can pose a risk to our reputation and the well-being of the people who make our clothes. Unauthorized subcontracting is problematic because suppliers may outsource production to facilities that we have not approved and that do not uphold our requirements for safe, fair labor practices and working conditions.

Expanding the collaboration between our sustainability and sourcing teams can help us address UAS issues since incidents can be difficult to detect through the periodic factory assessments conducted by our sustainability field team. We take extra precautionary measures in countries with high risk of UAS, such as specialized training for suppliers and factory management.

If we encounter a UAS case, our field team promptly implements our Issue Escalation Policy for High Risk Incidents, which calls for:

- Requiring the factory to immediately stop production
- Ensuring all goods (finished or unfinished) are returned to a factory approved by Gap Inc., segregated and held until the issue is resolved
- Leading an investigation to look for and address any critical issues
- Requiring the factory to register for management systems training

Results

We resolved 100 percent of 35 UAS cases we identified during 2013 – 2014. To drive more accountability, we began imposing charge-backs for UAS violations in 2014, the proceeds of which were applied to fund collaborative initiatives to improve long-term social and environmental performance at apparel factories, including the Project on Sustainable Labor Practices in Global Supply Chains and Better Work's Workplace Cooperation Program.

We created a sustainability forum that brought together some of our most senior leaders across the company to explore new ways of collaborating.

Partnering with Factories

We know that even more than our policies and ideas for improving working conditions, what really matters is how we put them into practice.

Each day, we strive to take actions that will lead to improvements – not just in the short term, but through the creation of long-term sustainable change. More than 20 years into our journey, we are challenging ourselves to continue to innovate, address challenges in a holistic way and rigorously assess our progress so that we can identify new opportunities for creating change.

The Short Story


Factory Partnerships

- We introduced a range of improvements, such as a detailed manual on our Code of Vendor Conduct.
- In partnership with Verité, we are working to better understand the experience of people who make our clothes.
- We are building on our longtime collaboration with Better Work to improve manager-worker relations.
- In 2014, our specialists resolved nearly 96 percent of critical issues at low-performing factories.
- We are enhancing our data collection and analysis to drive greater progress.

Three core elements guide our approach:

- Assessing and fixing issues (“Assessment & Remediation”) – We help factories meet legal and international standards for labor practices and working conditions and support their efforts to fix any issues that we find.
- Strengthening factories’ capabilities (“Capability Building”) – We help suppliers take ownership of their own sustainability by providing training and guidance designed to empower them to improve management practices, give voice to their employees and internalize standards.
- Building on the power of our connections – When factory employees are treated fairly and work in safe conditions, they help us create better products and enhance factory productivity and performance. These mutual benefits lay the foundation for sustainable change.

In the past few years, we have done a thorough reassessment of our approach to working with factories, laying the groundwork for further progress. We have introduced a range of



improvements as well as innovative programs to better understand the experience of the people who make our clothes and make sure that their voices are heard. Investments that we will be implementing over the next several years include:

- Partnering with Verité to enhance the degree to which workers feel valued, committed and engaged at work:
 - Verité will independently assess suppliers – through on- and off-site interviews of factory employees – to provide recommendations on improving our program and addressing any open issues.
 - Our collaboration centers on listening to workers' voices: How are they treated? Do they feel negatively or positively about their jobs? What would they like to see improved?
 - In addition, we will be sharing our own human resources best practices with suppliers, so that they can become preferred employers and create business benefits, such as higher retention and greater productivity.
 - Verité will also be authoring an impact assessment of this program that we plan to report on publicly.
- Tailoring assessments to factory circumstances and needs:
 - By segmenting our factory base, we plan to allocate additional resources to factories with more workers and greater complexity.
- Introducing revisions to our Code of Vendor Conduct (COVC) requirements, through the creation of Gap Inc.'s COVC Manual and a revised Assessment Manual for our supplier sustainability team:
 - Our COVC manual is the primary training resource that helps our suppliers understand how to meet our sustainability requirements. This document outlines our expectations with regard to labor standards, working conditions and the environment, among other issue categories, and allows them to proactively address any issues.
 - Our Supplier Sustainability Assessment Manual, which is based on industry best practices, outlines the protocols our team uses to assess and remediate any COVC compliance issues at factories.
- Incorporating the use of mobile technology to engage and empower the workers who make our branded clothing by:
 - Collecting intelligence on factory practices and issues and providing a grievance mechanism for workers to express any concerns
 - Improving our capability building programs by measuring their impacts on workers, as well as factory practices and conditions
 - Delivering information that can help increase workers' knowledge, productivity and happiness

Assessing & Approving Factories

We require all manufacturers of our branded clothing to sign Vendor Compliance Agreements that include complying with our Code of Vendor Conduct (COVC). Our COVC lays out our standards for working conditions at the factories that make our products, and we invest significant resources in its enforcement.

We require factories to post our COVC in a location that is regularly accessible to workers. Our COVC posters are translated into 27 local languages where our branded clothing is manufactured.

We strive to become more effective at identifying and correcting issues, which can be hard to detect, even for a well-trained and experienced eye.



We continually strive to become more effective at identifying and correcting issues, which can be hard to detect, even for a well-trained and experienced eye. In addition, new issues often arise after others have been fixed. While we do not own any of the factories that manufacture our branded clothing, we recognize our responsibility to help ensure that factories uphold our social and environmental standards.

Results

- We assessed labor practices and working conditions at 97.4 and 99.6 percent of the active factories that supplied our branded clothing in 2013 and 2014.
- Of our factory assessments, 52 and 53 percent were unannounced in 2013 and 2014.
- We evaluated 240 and 163 new factories in 2013 and 2014.

More data are provided at gapinc.com/sustainability.

Better Work Program

One of our most significant collaborations over the past 15 years has been the Better Work (BW) program. Led by the International Labor Organization (ILO), BW is a multi-stakeholder collaboration that creates a joint approach to monitoring factories. In 2001,

we helped form Better Factories Cambodia, which later expanded into BW. And we continue to work in close partnership with the ILO, sitting on its advisory board and piloting BW in new countries, including Bangladesh.

We partner with BW in countries where the program operates. The program focuses on protecting worker rights and well-being by helping companies and governments uphold the ILO's core labor standards and national labor laws. It leads factory assessments and helps address and remediate issues in BW countries. We also partner with and support the ILO on initiatives and programs in some countries where we conduct our own factory assessments or use third-party assessors, including Myanmar.

Results

- BW assessed 128 – or 44 percent – of the factories that make our branded clothing in BW markets in 2014, including 77 percent of factories in Cambodia.
- In Vietnam, BW conducted 36 percent of assessments and Gap Inc.'s field team performed 64 percent. The work of expanding BW in Vietnam has taken somewhat longer than anticipated, which explains the relatively large share of assessments still conducted by Gap Inc. in 2014.
- In Indonesia, BW performed 24 percent of assessments, while Gap Inc.'s field team conducted 76 percent. BW Indonesia has had limited staff and mostly operates in the greater Jakarta area and a few other cities in West and Central Java. The program is voluntary and enrollment is based on the discretion of factory management.

Factory Assessment & Remediation in Better Work Markets (2014)

Country	Factories Audited by Better Work		Factories Audited by Gap Inc.		Total
	# of factories	% of factories	# of factories	% of factories	
Cambodia	51	77%	15	23%	66
Haiti	4	100%	0	0%	4
Indonesia	21	24%	66	76%	87
Jordan	5	100%	0	0%	5
Lesotho	2	100%	0	0%	2
Nicaragua	2	50%	2	50%	4
Vietnam	43	36%	78	64%	121
Total	128	44%	161	56%	289

Factory Ratings

Factory ratings help us gauge progress in improving working conditions – and they also play a crucial role in integrating this work more deeply into our business. Ultimately, we aim to use ratings as an input into our sourcing decisions, similarly to how we rate factories based on the quality and cost of their product. For this reason, we continually work to improve our approach to ratings. In the past few years, for example, we began looking more closely at the severity of specific issues such as overtime, so that we can better assess where to focus our resources.

Our ratings also provide the framework for other critical aspects of this work. They help to establish targets for factory performance on labor practices and working conditions, facilitate dialogue with managers and support our ability to work with factories to create continuous improvement.

Factory ratings help us gauge progress in improving working conditions and play a crucial role in integrating sustainability more deeply into our business.



We use a color-coded system to rate factories' performance. High-performing factories with no or few key violations receive a dark or light green rating. Average performers are rated yellow, while factories that need improvement on one or more serious issues are assigned a red rating. Key violations, such as excessive hours, have greater negative impact on a factory's rating than "non-key" violations, such as first-aid kits not being fully stocked.

Results

Overall, the share of high-performing dark green-rated factories decreased, while the share of yellow- and red-rated factories increased somewhat during 2013 – 2014. This finding spurred us to investigate further and take steps to reverse this trend. For the first time in 2014, our sustainability and sourcing teams came together to set – and achieve – a shared goal to address issues at red-rated factories. We succeeded in resolving 96 percent of critical issues and 81 percent of other open issues at all low-performing factories in this category.

In addition, we are continuing to invest in new programs such as our work with Verité, and we have evolved our rating methodology to more accurately assess factory performance and focus our time on the most critical issues. By the end of 2020, we have set a goal to have no red-rated strategic suppliers for our branded apparel.

Overall Factory Ratings for Suppliers of Branded Clothing

All Regions	2011	2012	2013	2014
Dark Green	15.9%	16.1%	13.4%	12.2%
Light Green	34.2%	36.1%	32.6%	32.9%
Yellow	34.3%	34.7%	39.0%	36.2%
Red	15.6%	13.1%	15.0%	18.7%
# of factories	1255	1219	1152	1107

Three regions – Greater China, South Asia and Southeast Asia – accounted for 89 percent of the unit volume of branded clothing sourced from suppliers in 2014.

Factory Ratings for Top 3 Sourcing and Other Regions

Greater China	2011	2012	2013	2014
Dark Green	14.1%	10.8%	9.4%	8.1%
Light Green	31.0%	34.4%	33.4%	36.0%
Yellow	35.6%	32.4%	39.8%	34.4%
Red	19.3%	22.4%	17.3%	21.4%
# of factories	326	343	329	308
South Asia	2011	2012	2013	2014
Dark Green	8.6%	8.7%	8.5%	6.6%
Light Green	31.6%	35.2%	33.4%	31.1%
Yellow	41.3%	47.9%	46.1%	44.0%
Red	18.6%	8.1%	12.0%	18.2%
# of factories	361	332	317	302

Southeast Asia	2011	2012	2013	2014
Dark Green	17.5%	14.6%	9.8%	8.2%
Light Green	39.7%	42.4%	31.4%	27.8%
Yellow	30.3%	30.2%	38.9%	41.4%
Red	12.5%	12.9%	19.9%	22.7%
# of factories	297	295	306	331
Other Regions	2011	2012	2013	2014
Dark Green	25.8%	36.9%	33.0%	38.0%
Light Green	35.4%	31.3%	32.0%	40.4%
Yellow	28.0%	24.9%	26.5%	15.1%
Red	10.7%	6.8%	8.5%	6.6%
# of factories	271	249	200	166

We have evolved our rating methodology to more accurately assess factory performance and focus on the most critical issues.

Our factory ratings reflect the following circumstances in several of our key sourcing countries.

- In South Asia, worker strikes or “hartals” in Bangladesh reduced working days and led to more overtime hours. The increase in red factories in Bangladesh over the past several years reflects an evolution in our methodology – as we refine what we are looking for, we expect to find more issues. In addition, as the country’s garment industry continues to evolve, new issues surface even as others are addressed. We view red factories as a priority and the visibility they afford as a key tool in working to create a stronger and safer garment industry in Bangladesh.
- In Southeast Asia, labor shortages in Cambodia and Vietnam contributed to overtime issues. Vietnam instituted a new labor law in March 2013 that led to an increase in issues identified in late 2013 and 2014. In addition, most of the factories we have registered in the Better Work program are located in Cambodia, Indonesia and Vietnam. Better Work assessments are more resource-intensive and tend to identify more issues, which contributes to lower ratings.
- Our sourcing needs called for greater use of supporting factories for printing, embroidery and laundry, which tend to have more issues than other factories.

Helping Fix Issues at Factories

One of the tenets of our approach to partnering with factories is that we work to fix what we find. This means we have a comprehensive process in place to address issues. Specifically, we work with factories to agree on specific, time-bound plans to correct issues that do not meet our requirements for legal compliance, labor and working conditions, and management practices. We have devoted additional resources to fixing key issues at factories that pose higher risks to workers' rights and well-being as well as our business.



We continue to work in close partnership with the International Labor Organization, sitting on its advisory board and piloting Better Work programs in new countries.

We monitor progress through follow-up visits and on-site meetings with unions if they are present in a factory. We also collaborate with local stakeholders to help identify and address factory issues when they may have more direct access and influence. This often leads to corrective actions that improve working conditions and protect workers' rights.



Results

We closed 96 percent of critical open issues and 81 percent of non-critical open issues at red-rated factories in 2014.

For all rating levels, 70 and 68 percent of issues open at the beginning of fiscal 2013 and 2014 were resolved within six months.

91 and 94 percent of issues were corrected by the end of fiscal 2013 and 2014.

Resolution of Factory Code of Vendor Conduct Issues Open as of 1/31/2013

Sourcing Country	2/1/2013		5/1/2013 (3 months)		8/1/2013 (6 months)		2/1/2014 (1 year)		2/1/2015 (2 years)	
	# of open issues	% resolved	# of open issues	% resolved	# of open issues	% resolved	# of open issues	% resolved	# of open issues	% resolved
Greater China	1049	59%	430	78%	234	78%	68	94%	45	96%
South Asia	792	35%	517	58%	334	58%	122	85%	54	93%
Southeast Asia	953	44%	537	71%	274	71%	40	96%	19	98%
Other Regions	217	37%	137	76%	51	76%	34	84%	21	90%
Total	3011	46%	1621	70%	893	70%	264	91%	139	95%

Resolution of Factory Code of Vendor Conduct Issues Open as of 1/31/2014

Sourcing Country	2/1/2014		5/1/2014 (3 months)		8/1/2014 (6 months)		2/1/2015 (1 year)	
	# of open issues	% resolved	# of open issues	% resolved	# of open issues	% resolved	# of open issues	% resolved
Greater China	1086	37%	680	78%	244	78%	58	95%
South Asia	1300	34%	859	67%	426	67%	145	89%
Southeast Asia	1438	35%	932	63%	535	63%	82	94%
Other Regions	249	15%	211	53%	116	53%	46	82%
Total	4073	60%	1621	68%	1321	68%	264	94%

Strengthening Factories' Capabilities

To create wide-scale, sustainable change, we know that we must go beyond assessing and fixing issues at factories – we must support our suppliers in strengthening their own management. For this reason, capability building programs are an important focus for us in helping factories create lasting improvements.

While we have helped suppliers improve their capabilities for close to a decade, we saw a need to focus our efforts and create a more structured program. In 2013 – 2014, we created two separate field teams for social and environmental capability building that are dedicated to helping suppliers manage and improve the sustainability of their own operations.



To create wide-scale, sustainable change, we must support our suppliers in strengthening their own management practices.

For example, we provide training on good management practices, freedom of association and anti-corruption. We have also helped garment factories and fabric mills perform environmental impact assessments and share good practices by using the Sustainable Apparel Coalition's Higg Index. We aim to achieve both reach and scale with our capability building efforts, enabling suppliers to share training programs, management systems and business processes with managers and workers across all of their factories.

Learn more about our work in Bangladesh, Cambodia and Myanmar in the section on Designing Country Strategies on page 57.

Collecting Better Data

Data is essential to realizing our vision to create long-term, sustainable improvements in working conditions. Beyond helping us gauge our progress, it reveals trends, points to new questions and highlights opportunities to advance our efforts in the future.

Most of all, the data we collect offers critical insights that affect real people. Under what conditions are they working? What challenges do they – and we – continue to face? What are the levers for creating greater change?

We know that good data will help us take our efforts to the next level, and in 2014 we invested in creating a new Data & Insights team within our global sustainability group. This team was initially tasked with assessing our current approach to collecting data and rating factories that make our products. The team has since made some important changes to our methodology and built a new data system that we believe will enable us to make greater improvements to working conditions in the future.

Data is essential to realizing our vision to create long-term, sustainable improvements in working conditions.



New Factory Ratings

Rethinking our approach to factory ratings started with a critical question: How could we best address our low-performing, red-rated factories? In looking more deeply into these factories' performance, we discovered that overtime violations were the largest single reason that their ratings dropped. But the data gave us an incomplete picture. It did not reveal the severity of violations or track progress at the factories with the most serious issues. In addition, factories that did make improvements had to wait a potentially significant amount of time before seeing the benefits of their efforts, since our factory ratings were based on a weighted average that could cover a period of up to four years.

Based on these findings, our team revised our ratings systems so that we could better identify and address more serious issues, while rewarding the progress that factories make on improving labor practices and working conditions.



Rethinking our approach to factory ratings started with a critical question: How could we best address our low-performing, red-rated factories?

New Data System

Our team also worked with a third party to enhance our approach by creating a customized system that we can use to capture and analyze data for our updated factory ratings. This new system, which we implemented in 2015, allows us to look at the severity of issues as well as the connections between working conditions and key business metrics, such as employee retention, worker productivity and product quality. In addition, we will be able to manage data on the environmental performance of our suppliers and our own facilities. As part of this new system, suppliers will be able to self-report on their social and environmental performance.

Building New Collaborations

As we work to improve working conditions for the people who make our clothes, many of the issues that we face touch on systemic challenges that defy easy solutions. How can we best help to combat poverty or increase economic opportunity throughout the world? We know that we can't answer these questions on our own and have consistently looked for new ways to collaborate with others.

We formed several new partnerships in 2013 and 2014, which focus on complex, structural challenges affecting labor-management relations at garment factories, along with the well-being of workers in the global apparel industry.

“We invest in initiatives that will be transformative for our industry, our business and the people our business touches. Our legacy of commitment to sustainability, doing business responsibly, and improving conditions for factory workers is intrinsically part of that transformation.”

– **Sonia Syngal**, Executive Vice President, Global Supply Chain and Product Operations

ILO Better Work Workplace Cooperation Program

One major initiative is our partnership in ILO Better Work's Workplace Cooperation Program in Bangladesh, Cambodia, Haiti and Jordan. This initiative aims to help workers and managers jointly resolve workplace issues and engage in respectful collaboration. We believe it will help to prevent future disputes, resolve problems more effectively, give greater voice to workers and improve productivity and competitiveness. For example, one focus of the program is to help break down the hierarchical dynamic between male middle managers and female garment workers. It also addresses the need to involve and disseminate information to all workers, not just the few who serve on committees.

Cornell Project on Sustainable Labor Practices

We are also helping to launch a new initiative at the Cornell University School of Industrial and Labor Relations, a leader in the study of work, employment, labor policy and practices both nationally and internationally. We have made a two-year grant of \$750,000 to support the launch of the school's Project on Sustainable Labor Practices in Global Supply Chains, whose vision is to promote dialogue between multiple stakeholders to create more sustainable labor practices, especially in the garment sector.

The project's approach is distinct in starting with research about what has worked – and not worked – in the variety

of approaches that have been taken by both the private and public sectors to improve working conditions. Stakeholders from diverse backgrounds, including representatives of suppliers, labor

unions and civil society, will then explore innovative approaches that are grounded in research and hold the potential to bring about greater change.

The Short Story

Country Strategies

- While many of our regional strategies are consistent, we localize our approach to fit different cultures and needs.
- We helped form and lead the Alliance for Bangladesh Worker Safety.
- The Alliance's work has included extensive factory inspections and worker training on fire safety.
- In Cambodia, we have actively supported freedom of association and partnered with the International Labor Organization's Better Factories Cambodia program.
- In Myanmar, we have sought input from worker groups, government and others to craft our approach to improving working conditions.

Designing Country Strategies

The challenges involved in improving working conditions vary greatly by country, and achieving lasting change requires us to shape our approach based on unique economic, political, business and cultural circumstances.

For this reason, we have developed a country-specific approach to assessing risk and creating strategies to improve our work in factories. These assessments include social, political and environmental data, along with risk indices and expert analysis. They also draw on the insights we have gathered through ongoing engagement with a variety of external stakeholders and business partners.

Bangladesh

In April 2013, one of the worst tragedies in the history of the global apparel industry took the lives of more than 1,100 garment workers at the Rana Plaza factory complex outside Dhaka, Bangladesh. The country's garment industry encompasses some 5,000 factories, less than 70 of which are approved suppliers for Gap Inc. While we did not source any products from factories at Rana Plaza, we were deeply affected by this tragedy and, like others throughout the world, felt a sense of urgency in preventing such a devastating event from occurring again.

Within months of the Rana Plaza collapse, we helped form the Alliance for Bangladesh Worker Safety ("Alliance"). The Alliance brings together a range of apparel companies and brands to

make improvements to worker safety in Bangladesh, focusing on fire and building safety. Laying out binding commitments, the Alliance has funded and implemented a range of actions to create tangible change within specific time frames. It is also dedicated to measuring progress and openly communicating about results.

One of the key tenets of the Alliance's work is to engage workers in improving the garment industry in Bangladesh. It has conducted both surveys and off-site interviews with more than 3,200 Bangladeshi workers in 28 representative factories to obtain their input and perspective on fire and building safety issues. These insights have been used to develop better solutions and have been shared openly as a public resource.

Another important idea guiding the work of the Alliance is that creating lasting improvements requires a dual strategy. At the same time that it is addressing specific safety issues inside factories, the Alliance is also working to address the broader,

complex issues that affect the safety and well-being of the country's garment workers. These include inadequate regulations and enforcement, weak labor laws and a shortage of technical capabilities and experience.

The challenges we encounter vary greatly by country and often call for adjusting our approach to fit local economic, political, business and cultural circumstances.



The second Alliance Annual Report detailing progress was issued in September 2015. Key achievements and highlights from the report on the Alliance's first two years include:

- Inspecting 100 percent of factories that create products for member companies to assess structural, fire and electrical safety, with inspection reports published on the Alliance website
- Training of more than 1.1 million workers in fire safety
- Verifying ongoing remediation efforts at over 500 factories
- Expanding the Alliance worker helpline (Amader Kotha) to more than 400 factories; since inception, the helpline has received more than 20,000 calls
- Providing financial compensation to more than 6,000 workers who were displaced or unable to work due to factory inspections and closures for improvements
- Making \$100 million in low-cost financing available to factories and creating two credit facilities with the International Finance Corporation (IFC) and USAID
- Launching occupational safety and health committee pilot projects with ILO Better Work at factories

In the future, the Alliance will continue to work with governments, brands, local trade associations, civil society and other stakeholders to build on the progress made to date. Most importantly, we are committed to helping to ensure that this work leads to lasting change for Bangladesh's garment workers and industry.

Cambodia

To help improve labor practices and working conditions in Cambodia, we have made it a priority to encourage freedom of association for the country's garment workers and support programs that engage workers and help to improve risks to their well-being.


The country's eight major union federations and the Garment Manufacturers Association of Cambodia negotiated a Memorandum of Understanding (MOU) that tasked an independent Arbitration Council (AC) with reviewing and arbitrating labor disputes between workers and factory owners. We have actively supported the AC as a platform for peacefully resolving disputes between workers and suppliers. When unions have raised concerns about suppliers not complying with AC decisions, we have informed factory management of our expectation that they respect and follow any AC awards.

Gap Inc. and our suppliers also helped increase awareness among garment workers and employers about preventing and resolving labor disputes in Cambodia by supporting the AC radio learning program in 2014.

We have conducted training on preventing unauthorized subcontracting (UAS) with Better Factories Cambodia at all of our approved factories. Our field team provided a training update on UAS prevention to all factories in July 2014. We confirmed and resolved one UAS case where an unauthorized factory closed without making proper severance payments to workers. Following several months of negotiations with Gap Inc. and local labor groups, the alleged supplier provided settlement to the affected workers.

“The garment industry has been a key vehicle for economic growth, attracting foreign investment and creating opportunities for many Cambodians to supplement their family incomes. Providing such opportunities, however, is only a half measure if laborers are subjected to poor conditions or are treated unfairly.”

– **William E. Todd**, U.S. Ambassador to the Kingdom of Cambodia



We also support and collaborate on a number of initiatives with the ILO's Better Factories Cambodia (BFC) program, which we helped form in 2001, including:

- Training – We sponsor training programs on management systems, compensation and benefits to help prevent issues that affect workers' rights and well-being from reoccurring.
- Experts by Experience Initiative – We helped fund BFC's response to incidents of group fainting in Cambodia's garment factories. The program: 1) develops mechanisms to hear workers' perspectives and insights; 2) helps workers understand the issue; and 3) provides knowledge on prevention and appropriate responses.
- Food Provision Program – We support BFC's research on the impact of nutrition in the garment industry, with the goal of establishing scientific and empirical links between nutrition and productivity.
- One Change Campaign – We helped fund and strongly encouraged suppliers to participate in the campaign for factories to adopt one or more changes in management practices from BFC's designated list.

We have also partnered with CARE International to implement the Gap Inc. P.A.C.E. program for advancing female garment workers in Cambodia since 2009.

We have made it a priority to encourage freedom of association for Cambodia's garment workers.

Myanmar

In 2014, after careful deliberation, Gap Inc. became the first U.S. retailer to source apparel in Myanmar since sanctions were lifted by the U.S. government in 2012. Myanmar's long period of economic isolation, early stage of development and minimal rule of law contribute to the country's generally low level of labor practices and working conditions. We took extra measures to fully account for the challenging local circumstances and set a high standard that could help to improve the overall sustainability of Myanmar's garment industry.

To understand the local context, we held meetings and engaged in dialogue with civil society and worker organizations in Myanmar, U.S. government agencies, the ILO and international NGOs with specialized expertise in Myanmar. These consultations helped us identify how human rights, regulatory and political issues affect workers and our business.

We implemented an annual risk assessment process to identify, evaluate and address risks at the country and industry levels on an ongoing basis. This

process uses a combination of data, risk indices and expert analysis to assess and respond to changes in the country's social, political and regulatory environments.

We have collaborated closely with factory management, workers and third-party experts, including the ILO and Verité, to substantially improve labor practices

and working conditions at the two factories in the country that currently supply our brands. We also chose to voluntarily submit public reports on our sourcing activities under the U.S. government's Responsible Investment Reporting Requirements.

Partnering with factory management, workers and third-party experts led to substantial improvements in labor practices and working conditions at our suppliers' factories in Myanmar.



While changes take time and we still have work to do, key improvements and initiatives at the two factories we work with in Myanmar include:

- Developed policies and procedures to address under-age hiring, lack of leave and inappropriate disciplinary practices
- Reduced excessive overtime hours and corrected overtime wages
- Partnered with the ILO and U.S. government to provide training on freedom of association and social dialogue to improve worker-management relations, dialogue and issue resolution
- Provided remedy mechanisms for workers who were mistreated by supervisors
- Implemented new grievance policies and procedures, including training on workplace conduct and grievance channels and an investigation process for addressing concerns
- Implementing the Gap Inc. P.A.C.E. program in factory and community settings in Myanmar



Working for Greater Equality and Opportunity

When Doris and Don Fisher founded our company in 1969, they made history not just by offering a new way to buy jeans, but by working as equal partners.

At a time when women were often limited to taking a back seat to men, Doris stood right alongside Don in opening our first store and running our business – and together, they established a commitment to equality that continues to inspire and guide us today.

To us, celebrating individual style goes hand-in-hand with having deep respect for every individual. One of our core beliefs is that we can only thrive in a world in which all people have the chance to do the same. And by working to live up to the standard of equality set by our founders, we can unlock limitless possibilities – both for the people touched by our business and for our company.

The Short Story

Equality & Opportunity

- Through such actions as raising our minimum wage and being a voice against discrimination, we seek to create greater equality.
- We became the first Fortune 500 company to announce that we pay women and men equally for equal work.
- After we announced plans to raise our minimum wage for 60,000 employees, other companies followed.
- In 2015 we spoke out against discrimination toward the lesbian, gay, bisexual and transgender (LGBT) community.

“I started out with Gap Inc. 24 years ago, working as an associate store manager, and now feel fortunate to stand with three other women leaders of our brands. For Gap Inc., honoring equality and the value of every individual is not just part of our company's DNA, it makes us a better company.”

– **Andi Owen**, Global President, Banana Republic

When we pay people fairly and treat our employees with dignity and respect, they are inspired to be their best. In turn, they provide us with a stronger pool of talent and help us deliver better products and experiences to our customers. When our business succeeds and grows, we can support even more employees and become a stronger voice for equality and human rights beyond Gap Inc. As one of the world's largest apparel retailers, we see an opportunity to stand alongside others and work toward greater fairness for everyone. By taking a public position on these issues – for example, by calling for equal pay for women and an end to discrimination against the lesbian, gay, bisexual and transgender (LGBT) community – we can help to shape a broader conversation and create cultural change.

Supporting opportunity for women – inside and outside Gap Inc.

Creating greater equality starts with how we act within our own company and treat our own people. A prime example centers on women, whose role has profoundly shaped who we are. Women made up 74 percent of our worldwide employee base in 2014. We're proud that women serve as a majority of our global store managers (73 percent), and comprise a majority of our senior leadership. Eight of our company's eleven senior leadership team members are women, and four of our five brands are currently led by women.



We know that these women are in their roles because they happen to be the best people for the job – and have the right to be treated equally to their male counterparts. We engaged a third party to verify and became the first Fortune 500 company to disclose that we pay female and male employees equally for equal work around the world – whether dollar for dollar, pound for pound, yen for yen, or euro for euro. This is far from a given. In the U.S., for example, a woman makes 78 cents for every dollar a man earns. National Equal Pay Day represents how far into the current year many women must work in order

60,000+

EMPLOYEES

We led our industry and raised the minimum wage to \$10 for 60,000+ US employees in 2015. We were also the first Fortune 500 company to disclose that we pay female and male employees equally for equal work.

to close the gap from their previous year's earnings. This year, the date fell on April 14. We were pleased to confirm that women and men at Gap Inc. are paid equally – but our ambition goes even further. By making a public statement about this issue, we hope to encourage other companies to follow suit, thereby bringing about broader change.

Likewise, in 2014 we were one of 10 companies to sign onto the “She Works” Clinton Global Initiative Commitment to Action to enhance job opportunities for women around the world.¹ Led by the World Bank Group's International Finance Corporation, this partnership seeks to create new jobs for more than 300,000 women over two years. As part of our commitment, we signed the Women's Empowerment Principles, developed by UN Women and the United Nations Global Compact. Designed to offer practical guidance to business, the principles cover such areas as women's professional development and the need to publicly report on progress about gender equality.

“Investing in women's employment is not only the right thing to do—it's also essential for business. Companies that develop and retain women employees will gain a huge competitive advantage. Increasing women's economic participation and productivity can also be a game-changer in tackling poverty and boosting shared prosperity—our two corporate goals.”

– **Jim Yong Kim**, President, World Bank Group announcing the “She Works” Clinton Global Initiative Commitment to Action in September, 2014

Beyond these steps, we made a commitment that members of our senior leadership, including our CEO, Art Peck, would speak publicly at least twice a year about the importance of women's employment as a smart business strategy. We strongly believe that our commitment to equality for women gives us a competitive advantage, helping us attract top talent, increase engagement and retention and connect with our customers, a majority of whom are women around the world.

For these reasons, creating opportunity for women is not just deeply embedded in our culture, but integrated into our business. In 2007, for example, we launched our P.A.C.E. program to help the women who make our clothes gain the skills and confidence to advance both at work and in life. In September 2015, we announced a major expansion of P.A.C.E., with the goal of reaching one million women throughout the world by 2020. The women of P.A.C.E. have created change not just for themselves, but their families and communities – and in turn they have helped to strengthen our company in a number of ways.

Raising hourly wages – and sparking broader change

We have taken action on other issues in the past year when we believed we could make a difference, not just within Gap Inc. but more broadly, through the connections that link all of us in working toward greater equality. In early 2014, we announced that we would raise the minimum hourly wage for over 60,000 Gap Inc. employees, a step we hoped would help individual people while strengthening our business, enabling us to attract top talent, help our employees perform at their best, and increase productivity and retention.



As one of the world's largest retailers, we see an opportunity to stand alongside others and work toward greater fairness for everyone.

We also saw an opportunity to make a public statement that could help spark more widespread change. At the time of our announcement, hourly wages were a charged political issue, and we wanted to demonstrate that the private sector could be part of forging solutions. Our pay increase attracted significant media attention – as well as a callout by President Barack Obama – and since then, a number of other companies have increased their minimum hourly wages as well.

Speaking out against discrimination

Earlier this year, we spoke out about another issue that did not involve Gap Inc. directly, but we viewed as affecting the lives of all of us – from our employees to our customers to our business partners to our fellow citizens. Like others, we felt concerned by a wave of legislation being introduced in a variety of states that would allow for discrimination against

members of the LGBT community. These bills would permit individuals and businesses to use religion to challenge or opt out of laws that protect people from discrimination in employment, housing, business and public accommodations.

We believe that none of us enjoys real equality unless all of us do – and inclusion is a core principle that shapes our identity as a company, as well as how we run our business. We were inspired to add our voice to a rising chorus of protest against these laws. Our CEO, Art Peck, joined the CEO of Levi Strauss, Chip Bergh, to write an open letter “calling on retail and apparel companies, and other businesses, to join us in speaking out against legalized discrimination.” The letter called the legislation being passed in Indiana and other states not just bad for business, but “fundamentally wrong,” and concluded, “At Gap Inc. and Levi Strauss & Co., we are proud to say we are open to business for everyone.”

We believe none of us enjoys real equality unless all of us do – and inclusion is a core principle that shapes our identity, as well as how we run our business.



In the wake of online campaigns and boycotts against Indiana after passage of its law last March, state legislators began talking about making an amendment to protect the LGBT community. Ultimately, they added language barring discrimination based on sexual orientation and gender identity for the first time in Indiana’s history. For us, this experience underscored what can be accomplished when people come together – and how as a company we are linked, through our beliefs and actions, to so many others.

We feel extremely fortunate that some of our brands are among the most recognized in the world – and along with this status comes responsibility. Individuality and equality lie at the heart of what we do as a company. Every piece of clothing starts with someone’s creative vision, and it winds up being worn as part of someone else’s personal expression. We know that we can only succeed in a world in which every person is respected as both unique and equally valued. As a company, we will continue to work to live up to this vision of equality, one that ties us to our roots and also inspires us to look forward and find new ways to create positive change.

Advancing Careers

We strive to develop a diverse pipeline of talent and provide employees with the opportunities they seek to learn and develop, stay challenged and take on new roles and greater responsibility.

We know our people and job seekers expect a path to new opportunities that rewards them for their performance and the value they bring to our company. Offering our employees challenging work that tests and builds their capabilities not only sets them up for success it also makes our business stronger and more innovative.

Fifteen percent of Gap Inc. executives at the VP+ level in 2014 started their careers as store associates.



The Short Story

Careers

- We emphasize a growth mindset, which we cultivate by promoting from within and eliminating traditional performance reviews.
- Store employees can advance within the field or into corporate positions; a number of our executives started out as store associates.
- Old Navy provides entry-level job seekers with free, web-based training and coaching.
- Instead of reviews, employees have frequent conversations that provide feedback and guidance on opportunities to develop.

As a retailer that values hands-on experience in our stores, we invest in providing opportunities for store employees to take on higher level field and corporate positions. Some of our best examples of career growth are employees who started out at stores and rose through the ranks to senior management positions. Fifteen percent of Gap Inc. executives at the VP+ level in 2014 started their careers as store associates.

Many of our people stay at the company or come back because of the opportunities and range of roles that our brands and business provide. It's common for them to work for multiple brands and functions during their careers. Employees at the manager level and above average more than seven years with the company.

We also recognize the need to look outside our organization to make sure we find the best people for each role. We try to balance our internal promotions and external hires to achieve the most productive mix of diverse talent, functional and subject matter expertise and organizational fit.

Old Navy Job Skills Partnership

Old Navy is committed to addressing the skills gap that makes it difficult for many U.S. job seekers to obtain entry-level positions. The brand spent two years researching employment issues in the retail sector and discovered that many people lack important skills, leaving managers struggling to find enough well-qualified applicants.

To address these issues and help build a pipeline of retail talent, Old Navy partnered with LearnUp, a San Francisco-based technology company that seeks to provide entry-level job seekers with job-specific training and coaching. Together, Old Navy and LearnUp ran trials of a web-based training tool in San Francisco, Houston and St. Louis in 2015 before rolling the program out to more than 350 stores. The tool's interactive modules enable applicants to learn the skills needed for sales associate roles at Old Navy and allows them to sign up for in-store interviews. The pilot results showed significant improvements in the ratio of applicants interviewed to those hired (from 7:1 to 2:1), and stores received positive feedback from candidates about their experience.

Old Navy is committed to addressing the skills gap that makes it difficult for many U.S. job seekers to obtain entry-level positions.

Building on their initial success, Old Navy and LearnUp have also launched a new initiative called 'LearnUp the Ladder,' to provide free, online education for anyone interested in learning the skills necessary to move from entry-level to leadership roles in the retail industry.

Living a Growth Mindset

In 2014, we did away with our traditional annual review process for employee performance in favor of a new system called "GPS – Grow. Perform. Succeed." GPS replaces annual reviews with frequent performance conversations and coaching sessions that provide employees with regular feedback and guidance on their work and development opportunities. GPS helps employees develop and overcome challenges by promoting continuous learning.

The GPS approach is based on the concept of a growth mindset, which was championed by Stanford psychologist Carol Dweck. People with a growth mindset believe they can develop the abilities to succeed through initiative and hard work. A growth mindset contrasts with a fixed mindset where people believe their intelligence and abilities are pre-determined traits that they do not have the power to change.

Learning and Development Model

We use a 70-20-10 model for career development that emphasizes learning through real work experiences and direct interactions with colleagues. Seventy percent of an employee's learning and development takes place on the job and is built into their goals, and 20 percent occurs through mentorships and collaboration. Ten percent takes the form of courses or other formal training.

From onboarding new employees to grooming senior leadership, we offer employees a variety of training opportunities to support their personal growth and development. These range from online courses to in-person workshops and multi-day programs. A few examples of programs that improve our business by promoting employee learning and development include:

- Retail Academy – a combination of classroom sessions, rotational training and business simulations designed to develop the skills to advance and navigate the increasingly complex and technology-driven retail space.
- Adaptive leadership – a four-day development experience designed to help employees build the strategic capabilities to improve their careers and meet the business objectives for our brands.

People with a growth mindset believe they can develop the abilities to succeed through initiative and hard work.

Results

We filled over 45 percent of open headquarters roles through internal hires in 2014. For upper field sales positions that manage our stores, over 75 percent of open positions went to existing employees. Most store associates are new hires.

Global Share of Open Positions Filled by Internal Hires	2011	2012	2013	2014
VP & Above	75%	60%	71%	57%
Director / Sr. Director	72%	65%	67%	65%
Manager / Sr. Manager	65%	56%	57%	60%
Store Management	57%	53%	53%	52%
Overall (including Store Associates)	15%	15%	15%	15%

The Short Story

Diversity & Inclusion

- Respect for every individual is core to who we are.
- Diversity unlocks our innovation, helps attract and retain talent, and builds connections with our customers.
- Currently, women make up 74 percent of our employees and lead four of our five brands.
- We have spoken out when members of the lesbian, gay, bisexual and transgender (LGBT) community face discrimination.
- Our six employee resource groups foster understanding and connection across a range of backgrounds and cultures at Gap Inc.

Embracing diversity promotes creativity and innovation. It also helps to attract and retain the best talent everywhere we do business.

Embracing Diversity & Inclusion

We are committed to developing an inclusive, diverse workforce and pipeline of future leaders. Our business can only thrive if others have the chance to do the same, and our culture is based on a deep respect for every individual.

We believe embracing diversity promotes creativity and innovation and helps to attract and retain the best talent everywhere we do business. For our business to grow, our people also need to understand and embrace the wide variety of cultures that we increasingly encounter across our brands and store locations.

Promoting Equality

Creating opportunity for women is deeply embedded in our culture. From store managers to division presidents, women have long played a key role in running and growing each of our brands. Women make up 74 percent of our employees and currently lead four of our five brands, including Old Navy, Banana Republic, Athleta and Intermix.



Our own experience and much external research show that more women participating in leadership roles results in better outcomes for our business and everyone it touches.

- Companies across all sectors with higher female representation at the board level or in top management exhibit higher returns on equity and valuations (Credit Suisse, 2014)
- Companies with top-quartile representation of women in executive committees have, on average, 47% higher ROE and 55% higher EBIT (McKinsey, 2010)

We believe in standing up for all forms of equality both inside and outside of our company. This includes raising our voice in opposition to a wave of proposed legislation against members of the lesbian, gay, bisexual and transgender (LGBT) communities, many of whom are also likely to be our customers, as well as future and current employees.

Our commitment to equality and diversity is embedded in our Code of Business Conduct, which includes a zero tolerance policy for any form of discrimination, harassment or retaliation. This policy applies to our directors, employees, applicants, customers and business partners (including independent contractors and suppliers).



We believe in standing up for all forms of equality both inside and outside of our company.

Embracing the Next Generation

To build our business and provide opportunities to youth, we are committed to developing an inclusive, diverse workforce and pipeline of future leaders. Our recruiting efforts include attending and supporting minority job fairs. Gap Foundation's youth programs provide internships and job opportunities to marginalized youth from underserved areas.

Our ASCEND program recognizes diverse store leaders and corporate employees who demonstrate the capability, desire and potential for career advancement. ASCEND includes access to mentoring opportunities that help empower employees to succeed and enable the company to support the development of future leaders.

Employee Resource Groups

Gap Inc. employees from diverse backgrounds have taken the initiative to develop a number of Employee Resource Groups, which provide opportunities for cross-cultural learning, mentoring and relationship building. These groups organize development, networking and volunteering events. They provide employee input and support on internal initiatives, as well as offering consumer perspectives and product feedback that help Gap Inc. in the marketplace. In addition, they use their knowledge of various countries and cultures and foreign language skills to support global aspects of our business. In return, engaged employees get experience networking, gaining visibility, and meeting leaders across the company.

To expand opportunities for youth and build our business, we are committed to developing an inclusive, diverse workforce and pipeline of future leaders.



Our newest Employee Resource Groups, GapWIL and M-Suite, were recently formed to help meet the needs and develop emerging women leaders and recognize the growing role of Millennials in our business. Over 2,000 people have participated in these six programs annually:

- African American Networking Group (AANG)
- Asians Supporting Inclusion and Awareness (ASIA)
- Gap Gay Employees, Allies & Resources (GEAR)
- GapWIL (Women in Leadership)
- Honoring Our Latino/Hispanic Ancestry (HOLA)
- M-Suite (Millennials)

Results

In 2014, 51 percent of our full-time and part-time (non-seasonal) employees in the U.S. classified themselves as white and 49 percent identified as ethnically diverse.

Gap Inc. Owned Facilities

U.S. Ethnic Breakdown	2011	2012	2013	2014
White				
All	57%	54%	53%	51%
Management	75%	75%	75%	74%
New Hires	57%	53%	51%	49%
Asian				
All	6%	6%	6%	6%
Management	8%	8%	9%	9%
New Hires	5%	5%	6%	6%
Black				
All	17%	18%	19%	19%
Management	6%	7%	6%	6%
New Hires	18%	22%	23%	24%
Hispanic				
All	17%	18%	18%	20%
Management	9%	9%	9%	10%
New Hires	14%	15%	16%	17%
Other Minority				
All	3%	4%	4%	4%
Management	1%	1%	1%	1%
New Hires	5%	5%	5%	5%
All Minorities				
All	43%	46%	47%	49%
Management	25%	25%	25%	26%
New Hires	43%	47%	49%	51%
* U.S. full-time and part-time, non-seasonal employees. Data on ethnic diversity not available outside the U.S.				

(*We only track data on ethnically diverse employees in the U.S. Due to differences in country regulations and reporting, we do not have similar data for other countries.)

We monitor and assess the balance of women and men across our business.

Global Gender Representation	2011	2012	2013	2014
VP & Above				
Women	49%	47%	49%	46%
Men	51%	53%	51%	54%
Director / Sr. Director				
Women	59%	59%	59%	59%
Men	41%	41%	41%	41%
Manager / Sr. Manager				
Women	61%	60%	61%	60%
Men	39%	40%	39%	40%
Store Management				
Women	69%	69%	69%	68%
Men	31%	31%	31%	32%
New Hires				
Women	71%	70%	70%	72%
Men	29%	30%	30%	28%
Overall				
Women	73%	73%	73%	74%
Men	27%	27%	27%	26%

U.S. promotion rates for women exceeded those of men at the VP & Above and Manager/Senior Manager levels for three out of the last four years.

U.S. Promotion Rates by Gender & Position	2011	2012	2013	2014
VP & Above				
Women	12%	3%	8%	8%
Men	7%	7%	3%	5%
Director / Sr. Director				
Women	9%	7%	12%	9%
Men	7%	7%	9%	11%

Manager / Sr. Manager				
Women	11%	14%	13%	13%
Men	9%	14%	14%	13%
Professional				
Women	7%	7%	7%	7%
Men	7%	7%	7%	8%
Overall				
Women	7%	7%	7%	7%
Men	7%	7%	7%	8%

Caring for Our Employees

We know that financial incentives, work-life integration and benefits all play a key role in providing employees with what they need to make the most of their professional and personal lives, for themselves and their families, as well as our business.

The Short Story

Flexibility & Benefits

- We support our employees in a range of ways, from 401K matching to wellness programs to family support.
- We raised the hourly minimum wage to \$10 for 60,000+ U.S. employees following our January 2014 announcement.
- Our rewards for strong performance and extensive benefits support employees in creating a thriving future.
- We offer flexibility programs to accommodate different life phases.

Hourly Wages and Equal Pay

We were one of the first Fortune 500 companies to increase our U.S. minimum hourly rate. The increase took effect in two stages, first to \$9 beginning in June 2014 and then to \$10 from June 2015. We believe the benefits of raising wages far outweigh the costs. By analyzing data across our U.S. store locations, we determined that increasing the hourly wage above previous levels to \$9 per hour led to a substantial increase in the volume of applicants and significant improvement in the retention of hourly store employees.

Women have long played a key role in our business, and we believe strongly in equal pay for equal work. We became the first Fortune 500 company to publicly confirm that we pay male and female employees

the same for the same work around the world, from San Francisco to Tokyo.

Rewarding Performance

By providing financial incentives that reward strong performance, we help to attract and retain talent and grow our business. All employees at the manager level and above are eligible for a yearly bonus – which increases for higher level positions – that is based on a combination of company and individual performance. Employees at the Director level and above can also receive shares of Gap Inc. stock. We re-evaluated and revised our bonus structure in 2014 to better align each employee's bonus with the company's overall business performance.

Work-Life Integration & Benefits

For many of our employees, the ability to adjust their work schedules unlocks greater productivity, engagement and retention. We offer a variety of flexibility programs to help employees balance their professional and personal lives.

A number of departments offer flexible

scheduling programs that shift the emphasis from where and when work is conducted to the results delivered. This type of results-driven model enables employees to adjust their schedules and the way they work to suit their personal needs and circumstances.

Rewards for performance, work-life integration and benefits all play a key role in helping our employees lead more fulfilling professional and personal lives.



Other programs are designed to accommodate the different life phases and needs of our employees and their families, from raising children to taking care of elderly parents.

- Nationwide family support program – U.S. full-time and part-time employees have online access to child, elder and pet care resources. Full-time employees also benefit from back-up childcare and priority access to nationwide childcare centers.
- Leave programs – U.S. employees can take extended time off from work to manage the demands of their family and personal lives.
- Phase in/phase out – Employees can temporarily reduce their work hours before, during or after maternity or family leaves of absence.

Employees also receive a number of additional benefits that make up a significant portion of their overall compensation package. These include a variety of financial, health and wellness, lifestyle and community benefits that are intended to help our people and their families lead healthier, more productive lives.

- Health and wellness benefits include:
 - Full medical, dental and vision coverage for full-time employees

- Financial benefits include:
 - GapShare 401(k) plan matches employees' contributions dollar-for-dollar up to 4 percent of base pay with 100 percent immediate vesting
 - Employee Stock Purchase Plan (ESPP) enables full-time and part-time employees to purchase Gap Inc. stock at a 15% discount quarterly
- Work-life balance and lifestyle programs include:
 - Generous amounts of paid time off (PTO) that increase with promotion and seniority
 - Employee Merchandise Discount Program that gives full-time and part-time U.S. employees up to 50% off at Gap and Banana Republic and 25% off at Old Navy
 - Wellness programs, commuter benefits, and tuition reimbursement
- Community Investment Benefits
 - The Gap Foundation matches or supplements employees' contributions of money or time to local nonprofits

Improving Hourly Scheduling

For store and other hourly employees, scheduling practices can affect daily routines and the ability to meet family obligations. We're working to develop more stable, flexible scheduling that responds to our employees' needs and makes our business stronger.

Over the past year, each of our brands has evaluated their scheduling practices to determine where we may be able to improve scheduling stability and flexibility for our hourly store employees, while continuing to drive productivity in stores.

We launched a pilot program with U.C. Hastings' College of Worklife Law in 2014 to design and assess practices

for improving scheduling stability and productivity. The pilot tests a new scheduling system that gives hourly employees more stable hours and greater control over their schedules. The project also aims to evaluate the business impact on stores' turnover, absenteeism and productivity. Components of the pilot program include:

- Building more advance notice into schedules
- Experimenting with different approaches (e.g., testing fixed hours or shifts)
- Developing technology that empowers store associates to swap shifts



During the summer of 2015, the heads of our stores announced a shared commitment to eliminate the use of on-call shifts across our global organization. All five of our brands aligned on a complete phase-out of on-call scheduling by the end of September 2015.

Additionally, each of our brands committed to improving their scheduling policies to provide their store employees with at least 10 to 14 days of advance notice. All Gap Inc. brands plan to phase in advanced schedules by early 2016.

All of our brands have committed to improving their scheduling policies and providing store employees with at least 10-14 days of advance notice.



Working Safely

We strive to prevent and promptly address any work-related injuries to employees. Gap Inc. has a centralized online reporting system that tracks all incidents and injuries.

The information is analyzed at least quarterly to assess risks and develop prevention measures. Our internal claims team and safety department analyzes recurring injuries or issues to determine if changes need to be made to current policies or practices or more training

is required to address these risks. Gap Inc.'s independent Internal Audit department audits health and safety risks and processes. Results are integrated into the performance evaluations and compensation of relevant personnel.

Listening to Employees

To create a more productive, inclusive work environment and retain top talent, we seek feedback from employees on how we are doing, where we can improve and what makes our people proud to work for Gap Inc.

Gap Inc.'s overall employee engagement index and scores on specific questions consistently exceed external benchmarks by a wide margin. Reasons employees cite for being proud to work for Gap Inc.

regularly include: integrity and ethics of colleagues, reputation as an employer, commitment to the community and commitment to social and environmental responsibility.

For many of our employees, the ability to adjust their work schedules unlocks greater productivity, engagement and retention.



Results

Employee satisfaction	Unit	2011	2012	2013	2014
Employee satisfaction	% of satisfied employees	80	80	82	82
Data coverage	% of total employees	61	68	64	69

We are currently adjusting our method for assessing employee engagement and satisfaction. This includes developing a new approach that makes a more direct connection between employee attitudes and behavior and our business results.



Building Stronger Communities

What does selling clothes have to do with helping teenagers find their way in life? How can it open up opportunities for women who haven't had access to education? Or unleash the potential of volunteers who give their time and talent to their communities?

Our founders, Doris and Don Fisher, started asking these kinds of questions when they opened the first Gap store in 1969, and we are still asking them today. We know that by running our business, we can create opportunities for people in communities around the world. More and more, we recognize that our company is only as strong as the communities we're part of, and we also believe that whenever an opportunity is created for one of us, it unlocks benefits for all of us.

From the start, the Fishers lived this philosophy, and their lifelong and tireless dedication to the community dates back to long before they started our company. Over the years they

The Short Story

Communities

- We focus on creating opportunities for women, teens and young adults, and our own volunteers.
- We leverage core strengths to create benefits for all, including our business.
- More than 2,000 teens and young adults have participated in our This Way Ahead job training and internship program.
- We recently committed to educate one million women through P.A.C.E.
- In 2014, Gap Inc. employees volunteered more than 558,000 hours.

set a high bar for the rest of us. Don sat on the board of the Boys & Girls Clubs of San Francisco from 1963 until his passing in 2009. Doris is not just a business pioneer, as a woman who co-founded one of the world's largest apparel retailers; she helped pioneer a vision for how companies could make a difference in people's lives. For Doris, who is a leader in supporting education and the arts, a commitment to the community has always been highly personal. She still sends handwritten thank-you notes to our volunteers and remains an active – and passionate – trustee of the Gap Foundation Board.

The legacy of the Fishers is one of connection, of knowing that a company truly succeeds when it helps others succeed as well. This way of thinking is not about giving back, but investing in a stronger future for all of us. When we provide the women who make our clothes with opportunities to gain new skills, they bring their increased abilities and confidence to their jobs, helping to create better products. When our employees volunteer to prepare teens and young adults for their first jobs, they enhance their own skills by mentoring and leading others. We also create a stronger pipeline of potential talent and customers, as they grow up to become successful adults. Over time, the connections between us become stronger, as each of us can achieve bigger goals together than we could apart.

We recognize that our company is only as strong as the communities we're part of, and we also believe that whenever an opportunity is created for one of us, it unlocks benefits for all of us.



Our co-founders, Doris & Don Fisher

We believe that to thrive, businesses and communities need to work together, and we aim to work strategically by focusing on programs that leverage our core strengths. We think we can make the biggest difference by advancing women, teens and young adults, and through supporting volunteers.

Each of these areas is deeply linked to our history and culture as a company. Women have played an essential role at Gap Inc. from the moment that Doris Fisher helped open

1,000,000 WOMEN

By 2020, we will expand Gap Inc. P.A.C.E. to more factories and communities to give women worldwide the opportunity to gain the skills and confidence to change their lives.

our doors. Teens and young adults have been more than important customers of our business; we have given hundreds of thousands of them their first jobs. Volunteering has been so central to who we are – made part of our DNA by our founders – that many of our employees say it is a reason they join and stay at Gap Inc.

Committing to educate one million women throughout the world

In 2007, we launched Gap Inc. P.A.C.E. (Personal Advancement & Career Enhancement) to provide opportunities for the women who make our clothes to gain the skills and confidence they need to advance at work and in life. More than 30,000 women in 10 countries have participated in the program to date, and in September 2015, we committed to continue to expand beyond factories and into communities to reach one million women throughout the world by 2020.

Many women say P.A.C.E. has not just taught them tangible skills, but shifted their perception of themselves and their abilities. They describe becoming better at communicating, managing their finances, taking care of their health and planning for the future. Each woman has her own story to tell about the change she has experienced – whether in her own life or that of her family and community.

Giving teens and young adults the chance to prepare for adult life

A first job is not just a milestone – for many young people, especially those with limited opportunities, it can be life-changing. Beyond taking on new responsibilities and learning new skills, working for the first time can profoundly shape someone's goals and prospects for the future. One prominent study found that teens who worked while in high school had annual earnings later on that were 22 percent higher than those who did not ². Our job training and internship program, This Way Ahead, aims to provide this experience to low-income teens and young adults by sharing what we know first-hand – what it takes for a young person to succeed at work.

“This Way Ahead is nothing short of life-changing for the participants and Gap Inc. employee volunteers. Teens and young adults experience a critical rite of passage – their first paid job – and we see them start to view the future differently. And our employees gain valuable skills while helping to change the course of a young person's life. It is a win-win for all of us.”

– **Gail Gershon**, Executive Director, Community Leadership, Gap Foundation

Launched in 2007, This Way Ahead builds on the powerful connections between our employee volunteers, the young people we serve and the rich training ground that exists within our stores. Participants – whom we recruit through our nonprofit partners – attend workshops led by volunteers from Gap, Banana Republic, and Old Navy stores that equip them with the skills they need to get – and keep – a job.



A first job is not just a milestone – for many young people, especially those with limited opportunities, it can be life-changing.

Over the course of two months, they dive into such topics as decision-making, goal setting, presentations and conflict resolution, with the volunteers bringing these subjects to life through interactive exercises and their own stories. Our employees share what they have learned about career planning and the importance of education, and they help participants explore a range of possible careers they may feel passionate about. Graduates of the program have the opportunity to apply for paid internships in our stores, where they can use their skills to navigate a real work environment.

In addition to This Way Ahead, we set out to change the lives of young people through strategic investments in a range of nonprofit organizations that focus on job preparation for young people in the U.S., Canada, the U.K., France and Japan. The programs we supported have reached approximately 90,000 teens and young adults each year over the past three years. We are applying what we have learned to further refine This Way Ahead.

YOUTH

2,000+

TEENS + YOUNG ADULTS

More than 2,000 teens & young adults have received job training and store internships through our This Way Ahead program. Our investments in nonprofit organizations have reached over 270,000 youth in the past 3 years.

More than 2,000 teens and young adults have received job training through This Way Ahead so far, which is now running in five major cities in the U.S. – New York, San Francisco, Boston, Houston and Chicago – as well as three cities in the U.K.

We have found that because of the connections it creates, the program benefits everyone involved, inspiring us to evolve it even further. One hundred percent of This Way Ahead graduates have reported gains in maturity, conflict resolution and leadership. At the same time, volunteers who have mentored participants have enhanced their own skills and become more motivated to advance their own careers. Our stores – and by extension our brands – have hired many of the interns who have completed the program, and this group has stayed on the job twice as long as their peers and scored 10 percent higher on employee engagement surveys.

“The most valuable lesson I’ve learned is to ALWAYS have a positive mindset. I remember one of my coaches telling me, ‘Even when you’re having a bad day, always tell yourself that you will have a good day, and believe me, your day will be amazing.’ And from that day on, I’ve been constantly living my life positively.”

– **Rhyanna Goodman**, alum of This Way Ahead in New York City

In other words, as youth have learned valuable skills and landed jobs, we have gained access to a strong pipeline of talent. Now, given the benefits to our business and young people in our communities, our brands are eager to play a greater role in TWA, taking it beyond the realm of Gap Foundation, which designed the program and oversees it. Through the active participation of our brands, we are setting goals to hire many more store associates from the program, thereby changing the life trajectory of thousands more young people.

This evolution fits our broader sustainability strategy, which is comprised of three major stages: creation, integration and impact. Ultimately, what we are working to achieve through this strategy is the opportunity to change more lives – on a bigger scale and in a way that is sustainable for the long term.

Supporting our volunteers as they help to change the world

We believe that volunteers offer not just their time, but creativity, skills and talent that can’t be quantified and have the power to change the world. In 2014, we estimate that Gap Inc. employees volunteered more than 558,000 hours in their communities, our

VOLUNTEERS

558,000

HOURS

Gap Inc. employees volunteered 558,000 hours in 2014 alone. This new record was set with the support of more than 2,000 Community Leaders across the world, who lead a wide range of volunteering projects for their teams.

highest number yet. That translates to countless moments – of patiently tutoring a child, or outfitting a woman to prepare her for a job interview and the start of a new life, or managing a critical task inside a nonprofit organization that there were simply no funds to cover.

To work more effectively, we support our volunteers in forming long-term relationships with community organizations. Over time, they gain a better understanding of what an organization needs and how they can make a difference. The organization gets to know them too and can help volunteers become even more effective. This deeper connection, we believe, leads to deeper impact.

Our Community Leaders are the heart and soul of bringing this vision to life. They serve as key connectors in our communities, inspiring their teams to volunteer, leading the charge by example, and fueling a movement that rallies all of us to get involved. We have more than 2,000 Community Leaders in seven countries around the world, leading teams throughout Gap Inc. in pursuing volunteer projects that hold unlimited potential to build stronger communities.

“I love being a Community Leader because I enjoy creating opportunities for others to fall in love with volunteering. It’s contagious, and we all have the capacity to make positive changes in our community.”

– **Rachel Manning**, Senior Marketing Manager, Athleta

Through our Community Leaders, our brands are not just engaged in these efforts, but play a critical role in driving them. At Banana Republic, for example, our store teams reached 100 percent volunteer participation in 2014, with all of them giving time and talent to the community. Every year at Old Navy, our store volunteers run Camp Old Navy, a job-shadowing event that gives thousands of young people throughout the U.S. the chance to go behind the scenes and experience first-hand what it takes to operate a business.

As a global retailer, we are part of a global community, and we believe that each member of a community thrives only when every other member has that same opportunity. We have seen time and again that when we work to create change in people’s lives, they change us too. Our community efforts have helped us create better products, develop a stronger pipeline of talent, and become more innovative. Most of all, they have connected us to the people who are touched by our business. These connections make us a better company and inspire us to look for ways to make an even greater contribution to the community in the years to come.

COMMUNITY

\$17,251,648

The total value of giving to the community through employee time and money, including company match, in 2014

Volunteer Programs

We provide our employees with a range of benefits for the time and money they give to the community. These include:

- Field Team Grants – For every 25 hours a store team volunteers for youth development or women’s advancement, they can request a \$250 grant for the community organization.
- Money For Time – We donate \$150 to the partner nonprofit for every 15 hours an employee volunteers after one year of work.
- One-time and Recurring Payroll Donations – We match employees’ financial donations to community organizations after one year of work.



P.A.C.E. – Changing One Million Lives

Clearly expressing a point of view. Reframing problems as opportunities. Managing a budget and taking steps to be healthier. Believing in yourself. The Gap Inc. P.A.C.E. (Personal Advancement & Career Enhancement) program launched to teach the women who make our clothes critical skills for navigating life both at work and at home.



Now reaching women in community settings as well, the coursework and discussions unlock new possibilities for women and shift their perception of themselves and their abilities. As a result, many women say that P.A.C.E. has helped them become more confident, leading them to set bigger goals and successfully work to achieve them.

More than 30,000 women in 10 countries have participated in the program since we launched P.A.C.E. in 2007 – and in September 2015 we announced that we were committing to expand the program to reach one million women around the world by 2020.

The Short Story

Gap Inc. P.A.C.E.

- We have committed to educate one million women through P.A.C.E.
- P.A.C.E. provides women with skills and confidence to advance their lives.
- The program initially focused on the women who make our clothes and has expanded into communities.
- More than 30,000 women in 10 countries have participated to date.
- Evaluations document higher self-esteem and productivity among participants.
- P.A.C.E. is adding new curricula focused on adolescent girls and building women leaders.

Many women say that P.A.C.E. has helped them become more confident, leading them to set bigger goals and successfully work to achieve them.

Women who have participated in P.A.C.E. have stories to tell about change that are as unique as they are. One worked up her courage to give a speech during the program, gaining a sense of pride she had never experienced. Another realized that she could make a difference by telling other women about her experience with breast cancer, inspiring them to do self-exams and stay healthy. And yet another learned to better manage her family's finances, successfully reaching her goal to build her dream house with her husband and two daughters.

These individual stories are linked to a bigger one as well – about the connections between us that support all of us in reaching our fullest potential. When we help the women who make our clothes and others who lack opportunities build their skills and confidence, they can work toward their goals and become a catalyst for change in their families and communities. When they bring their enhanced abilities to their work inside garment factories, they enable us to deliver better products to our customers – and more broadly, they help to create thriving communities in which our business, too, can thrive. P.A.C.E. also connects the people who make our clothes with the people who buy them. When customers buy our clothes, they support our ability to create opportunities for even more women to advance.



These connections are why our CEO, Art Peck, has said that P.A.C.E. not only advances women but also propels our business, thereby making it more sustainable for the long term. In addition to creating a workforce with more skills, P.A.C.E. enhances the productivity and performance of our suppliers and deepens the sense of meaning and purpose among our employees. On September 28, 2015, Art announced the expansion of P.A.C.E. at the Clinton Global Initiative Annual Meeting in New York; two days later, nearly 500 employees gathered in Times Square to unveil an art installation celebrating women in the program.

“It’s not an aspiration,” Art said of reaching one million women through P.A.C.E. “It’s not a goal, and it’s not an ambition. It’s a commitment. We will do this.”

PROGRAM PARTICIPANTS

10

COUNTRIES

Bangladesh	Jordan
Cambodia	Myanmar
China	Pakistan
India	Sri Lanka
Indonesia	Vietnam

Providing up to 80 hours of classroom learning

P.A.C.E. has its roots in a question that started us on one of the most rewarding journeys in our history: How could our business provide new opportunities to the women who make our clothes? We explored who they are, what their lives are like, and what would enable them to create change – for themselves, their families and their communities. Even though eighty percent of garment workers worldwide are women, living in a wide range of countries including India, Vietnam, Bangladesh, Cambodia and China, relatively few advance to higher-level positions. Many have the capacity to do so but have lacked access to education and the chance to acquire the skills they need for professional and personal growth.

Creating opportunities for women is a natural fit for our company. 74 percent of our employees are women, and so are over 70 percent of our senior leadership team, including four of our five brand leaders. As Art put it when he announced our P.A.C.E. expansion, “We’re very committed to investing in women as a force around the globe.”

We began offering P.A.C.E. in community settings in 2013 to support women outside the factory environment. We are now enhancing our approach even further to reach one million women throughout the world by 2020.

P.A.C.E. teaches the women who make our clothes critical skills for navigating life both at work and at home – from clearly expressing a point of view to managing a budget to reframing problems as opportunities. We designed P.A.C.E. with two partners with a deep understanding of the needs of the women we aim to serve: Swasti Health Resource Centre, an international organization focused on public health outcomes for those who are socially excluded or poor, and the International Center for Research on Women (ICRW), a global institute dedicated to empowering women. CARE has served as a key implementing partner for the program.

Together, we created a comprehensive curriculum that includes 65-80 hours of classes in as many as nine subject areas, such as communication skills, time and stress management, problem solving and decision-making, financial literacy and more. Classes for the women who make our clothes are held on site at factories with the support of faculty provided by our suppliers, and they involve role-plays, exercises and open discussion. Beyond teaching women tangible skills, P.A.C.E. shifts how many see themselves and their abilities.

Documenting our impact

To ensure that we are being effective, we believe it is critical that we evaluate how the program is working. In 2013, ICRW published a report based on evaluations it conducted from 2009 to 2013 at six factories where P.A.C.E. had been implemented in India, Cambodia, Vietnam, Bangladesh, and China. It found that participants in the program felt they had greater confidence and stronger communication skills, and had learned the importance of goal setting and managing their finances.

Overall, the share of participants reporting high self-esteem rose 49 percent by the end of the program, while the share of those reporting high self-efficacy – or belief in their ability to produce desired results through their actions – increased 150 percent. ICRW has also tracked the long-term impact of P.A.C.E. through a follow-up study of some of the first group of participants in India. It found that gains from the program have not just been sustained over time, but deepened, as the women applied what they learned both at work and at home, and they were able to transfer this knowledge to other women and family members. ICRW continues to evaluate the program as it expands to new countries and settings.

“Many women who work in the garment industry, and others who have lacked opportunity and access to education, have the capacity and often the desire to grow, learn, develop and advance. I’ve found that these women speak of dreams that many of us share – to provide a better life for themselves and their families. It is our hope that through P.A.C.E., women can come closer to fulfilling those dreams.”

– **Dotti Hatcher**, Executive Director, P.A.C.E. Global Initiatives



Dotti Hatcher speaking at a P.A.C.E. graduation event

The documented business benefits of P.A.C.E. also support the program’s long-term sustainability. ICRW has found greater work efficacy among participants, such as the ability to take initiative and demonstrate their abilities, as well as greater influence in the workplace through stronger relationships, effective communication and other skills. Our suppliers, who have partnered with us by investing in running the program, have expanded on these findings. Conducting their own research on how P.A.C.E. impacts their business, they have documented lower absenteeism, increased efficiency and higher productivity. In Cambodia, for example, retention rates were 66 percent higher for P.A.C.E. participants than other workers. And at a factory in India, productivity was 15 percent higher for P.A.C.E. participants.

These findings were reinforced by an academic study³ based on a randomized controlled trial in five garment factories in Bangalore, India, operated by Shahi Exports, a Gap Inc. supplier. Three thousand workers participated in the trial, with 1,000 selected to participate in P.A.C.E. and the others serving as a control group. The study found significant gains in efficiency among the P.A.C.E. participants, along with cost savings for Shahi and personal benefits to the workers. The research showed that through gains in attendance and productivity, P.A.C.E. can generate a positive return on the company's investment.

Expanding P.A.C.E. to one million women

The benefits of P.A.C.E. to multiple stakeholders encouraged us to innovate further by expanding on the program's design and delivery. Working with Swasti and CARE, we began offering P.A.C.E. in community settings in 2013 to support even more women outside the factory environment. We are now enhancing our approach even further as we work to achieve our goal to reach one million women throughout the world by 2020.



Overall, the share of P.A.C.E. program participants reporting high self-esteem increased by 49 percent.

At the core of P.A.C.E. is the belief that every woman in the program is connected to many more people – whether in her workplace, her family, her community and even far from her home – and this power of connection is also guiding how we think about expanding the program's reach. Because we believe that new collaborations hold the key to bringing P.A.C.E. to more women, we are committed to partnering with other companies, industry leaders, non-governmental organizations, development agencies,

funders and others. To support our new partners, we will provide them with training and access to the P.A.C.E. curriculum.

And we are working to deliver P.A.C.E. to a much broader base of participants. Building on our factory and community programs, we are creating a suite of learning programs that will include a new offering for adolescent girls between the ages of 13-18, as well as a new women's leadership curriculum. Both are designed to meet the needs of women and girls wherever they are in their lives. For younger participants, P.A.C.E. will provide life skills education at a critical time in their personal development, when it could change the trajectory of their lives. For women in the leadership program, P.A.C.E. will offer the chance to deepen their development by focusing on such areas as managing vision and purpose, influencing others, driving for results, and leading change.

“It’s not an aspiration,” our CEO, Art Peck, said of reaching one million women through P.A.C.E. “It’s not a goal, and it’s not an ambition. It’s a commitment. We will do this.”



P.A.C.E. class in Myanmar

From the earliest days of Gap Inc., our founders, Doris and Don Fisher, had a vision to create opportunities for the people touched by our business. Through P.A.C.E., we have now seen how this vision unlocks an endless loop of possibilities, as women who gain access to education change not just their own lives, but those of many others. P.A.C.E. has taught us valuable lessons – about what it takes to create social innovation and bring it to scale – but most of all it has inspired us about the potential for business to join with others to help people everywhere advance their lives.





Protecting Our Shared Environment

We view environmental issues as fundamental human rights issues. People can't live without clean air to breathe and clean water to drink.

And those who already face challenges due to poverty or lack of opportunity tend to suffer the most from environmental harms, as their communities are often the most vulnerable and have the fewest resources.

A healthy environment is also critical to our own survival as a company. We depend on natural resources like water to make our products, and we also rely on the people who make our clothes – if they cannot thrive in the communities where they live, neither can we. The environment is shared by all of us, and it is imperative that we act together to protect it.

This urgency is heightened by current environmental threats, including those caused by our industry. We are keenly aware that the environmental impacts of the apparel industry are significant, including pollution and greenhouse gas (GHG) emissions. According to

The Short Story

Environment

- We view a healthy environment as a human right.
- We exceeded our latest goal to reduce our absolute U.S. greenhouse gas (GHG) emissions, achieving a 33 percent reduction.
- By the end of 2020, we commit to reduce the absolute global GHG emissions in our owned and operated facilities by 50 percent from 2015 levels.
- We also commit to divert 80 percent of waste from landfill for our U.S. facilities by 2020.
- We frame our water strategy under the umbrella Women + Water.

We see significant opportunity to create value for people, communities and our business through our environmental efforts.

leading scientists, the primary cause of climate change is GHG pollution, produced by manufacturing, transportation and energy consumption, among other factors.

Our current environmental approach centers on two main areas: climate change and water. These are the issues where we see significant potential to positively impact people's lives – and they also hold a great importance to our business. In addition to needing access to natural resources to remain viable in the future, we need to help ensure that the people who make our clothes have access to clean water to sustain their health and well-being. While they are each major focus areas on their own, climate change and water issues are also linked, as scientists have documented that climate change affects water supplies in a number of ways. It has reduced the world's freshwater, for example, and the warming of the planet's atmosphere is leading to unpredictable shifts in annual runoff and precipitation, as well as melting glaciers, more intense storms and impacts to agricultural crops and other vegetation⁴.



We see significant opportunity to create value for people, communities and our business through our environmental efforts. Because we are all affected by climate change, when we reduce our greenhouse gas emissions, these actions ultimately affect everyone touched by our business. The changes we make help to link our customers, employees, business partners and communities in a common goal to protect the world we live in. When we work to keep water supplies safe and clean in the communities where our products are made, we support the health of the people who make our clothes, and in turn they are able to contribute to our health as a company.

Our strategy to address climate change is focused on reducing our greenhouse gas emissions, a commitment that we have been working toward for the past several years. In 2010, we set a goal to reduce our absolute greenhouse gas (GHG) emissions from our

U.S. operations by 20 percent by 2015 from a 2008 baseline. We are pleased that we exceeded this goal ahead of schedule – achieving a 33 percent reduction.

With this report, we are announcing two ambitious goals. We commit to a 50 percent absolute reduction of greenhouse gas emissions in our owned and operated facilities globally by 2020. We also commit to divert 80 percent of waste from landfill for our U.S. facilities by 2020. In addition to conserving resources, decreasing our waste through efforts like recycling also helps offset climate change by reducing the gases produced from the breakdown of material in landfill, as well as the energy used to produce new goods.

We commit to a 50 percent absolute reduction of greenhouse gas emissions in our owned and operated facilities globally and 80 percent waste diversion from landfill for our U.S. facilities by 2020.



Our new goals represent an important shift from our past approach, which was more cautious and measured. The first GHG goal we set in 2003 called for an 11 percent reduction in energy usage per square foot in the U.S. by 2008. Our next goal raised the bar by looking at absolute GHG emissions, and we set a bigger reduction target of 20 percent. Both of these goals helped to galvanize efforts across Gap Inc., and we delivered good results. But the urgent reality of climate change has caused us to re-think our approach and strive toward more aggressive, science-based targets. We believe that the health of our environment depends on bolder and bolder action across all segments of society, from governments to companies to environmental organizations to consumers. If we can achieve our new goals, we'll make a much more meaningful difference. And if other companies set bigger reduction targets as well, the collective impact could be very tangible.

To achieve these bigger goals, we are working to increase our energy efficiency through such improvements as better lighting in our stores and to reduce our waste going to landfill by collaborating with our landlords and other mall retailers to improve recycling capabilities. We recognize that none of these changes on their own are enough – but the sum of all our efforts played out across the scale of our business operations can create

real change. Every improvement in our policies, practices, processes and decision-making helps, and we believe that taken together, these actions have the potential to drive results we haven't created to date.



In addition to needing access to natural resources to remain viable in the future, we need to help ensure that the people who make our clothes have access to clean water to sustain their health and well-being.

In the past few years we have also evolved our approach to water, which builds on our core belief that environmental issues are human rights issues. The basis of our strategy lies in two critical facts – first, that 80 percent of the people who make our clothes are women, and second, that much of the burden of water stress falls on women as well. For these reasons, we frame our approach to water issues under the umbrella of Women + Water. Our strategy is to focus our efforts on supporting women's well-being and to address the use of water in our supply chain – for example, by working toward the goal of having zero discharge of hazardous chemicals by 2020. Our strategy has a number of components, ranging from partnering with our fabric mills to improve their practices to building awareness and education around safe water handling practices among the women who make our clothes.

While addressing both climate change and water issues poses significant challenges, we also believe we can make a difference for the people touched by our business. The need for people everywhere to work together to create a healthy environment is not up for debate, nor is it optional – for any of us. We feel an urgency to act to protect the resources that we all share and depend on to create a better future.



Doing Our Part on Climate

Climate change is a global challenge that transcends boundaries, affecting people and communities everywhere.

We view it as both an environmental issue and a human rights issue, as it poses a threat to such basic needs as having clean air to breathe and a safe environment to live in. What's more, people who face the challenges of poverty or lack of opportunity are often most affected by environmental harms and have the fewest resources with which to cope. Few issues carry such an urgent need to come together to forge solutions.

We know that climate change holds the potential to impact our business, as well as the many people throughout the world whose lives we touch. And we feel an ethical responsibility to address this issue. The apparel industry causes significant environmental impacts, including greenhouse gas (GHG) emissions. Our company can only thrive in a world with abundant natural resources and a healthy environment that supports the wellbeing of all of us. We also believe that addressing climate change benefits our

The Short Story

Climate Change

- We view climate change as both an environmental and a human rights issue.
- By the end of 2020, we commit to reduce the absolute global GHG emissions in our owned and operated facilities by 50 percent from 2015 levels.
- We also commit to divert 80 percent of waste from landfill for our U.S. facilities by the end of 2020.
- These goals require that we take new approaches to increase our efficiency.

business, making us more efficient and enhancing our connection with customers, employees and other stakeholders. When we reduce our energy usage and emissions, we are not just doing our part, but becoming part of something bigger – a global effort to solve one of society’s most critical challenges.

Over time, we have set increasingly ambitious goals to address our environmental footprint. With this report, we are going much further than in the past, committing to a 50 percent absolute reduction of GHG emissions in our owned and operated facilities globally by 2020. We also commit to divert 80 percent of waste from landfill for our U.S. facilities in the same period. Both of these goals will require us to significantly increase our efficiency through such innovations as real-time monitoring of the energy use in our stores.

These goals also represent a shift in our thinking. Whereas before we took a measured approach, now we feel a more pressing need to act. The International Panel on Climate Change declared in 2014 that, “Human influence on the climate system is clear, and recent anthropogenic [caused by human activity] emissions of greenhouse gases are the highest in history.”⁴ We believe that the health of our environment depends on bolder and bolder action across all segments of society – from governments to companies to consumers.

Our company can only thrive in a world with abundant natural resources and a healthy environment that supports the well-being of all of us.



As one of the world’s largest apparel retailers, we recognize that our size brings added responsibility, and it also presents greater opportunity to make a difference. While each of the changes we are making would not be enough on its own, the sum of our efforts – across the scale of our business operations – holds the potential to create real change. Every improvement in our policies, practices, processes and decisions helps, and we believe that taken together, these actions can drive results we haven’t produced to date. This impact can be multiplied as other companies set bigger reduction targets, leading to a greater collective ability to mitigate climate change.

CLIMATE

-50%

EMISSIONS

We view access to a healthy environment as a human right — and we've set ambitious goals for 2020, including a 50% absolute reduction of greenhouse gas emissions in owned and operated facilities globally.

Since setting our first carbon reduction goal in 2003, we have learned a great deal that has helped us shape our approach to making environmental improvements. For example, we see the need to act both inside and outside Gap Inc. so that we address our own impacts while working toward broad-based change. In addition, we recognize the need to continually look at our operations with fresh eyes, so that we uncover new ways to become more efficient. And we are developing a long-term strategy to address the environmental footprint of our supply chain, where we have less influence but see great potential to help create a positive impact.

In all the areas we are focused on, we are at a critical juncture in mitigating our environmental impacts. Achieving our goals by the end of 2020 won't be easy, as we will need to make new investments, find new approaches and adopt new ways of operating. But the challenges that the world faces demand that we take our efforts to this next stage of commitment. While we don't yet have all the answers to how we will achieve our goals, we are determined to find our way on a path to creating greater change.

“Tackling climate change is one of America's greatest economic opportunities of the 21st century.”

– BICEP/Ceres Climate Declaration

Collaborating for Change

Climate change affects all of us, and we feel an urgency to act both alongside others and on our own to bring about the greatest possible change. Since 2007, for example, we have been actively engaged with Ceres, a leading nonprofit organization dedicated to mobilizing the business community to build a sustainable economy.

We are a member of Ceres' Business for Innovative Climate and Energy Policy (BICEP) coalition, a group of more than 20 public and private companies – including Nike, Levi Strauss, Starbucks and eBay – seeking to help pass meaningful energy and climate change legislation. To underscore the urgency of finding solutions to climate issues, we signed the BICEP/Ceres Climate Declaration in 2014. Along with more than a thousand companies and individuals across the U.S., we lent our voice to the message that, “Tackling climate change is one of America's greatest economic opportunities of the 21st century.”

We began working to reduce our own carbon footprint in 2003, with an initial goal to decrease our greenhouse gas (GHG) emissions by 11 percent per square foot between

2003 and 2008 in our U.S. operations. After exceeding that goal, with a 20 percent reduction per square foot, we committed to reduce our absolute GHG emissions in our U.S. operations by 20 percent by 2015. We are pleased that we exceeded this goal ahead of schedule, achieving a 33 percent reduction by 2014.

We exceeded our goal to reduce our absolute GHG emissions in our U.S. operations by 20 percent by 2015, achieving a 33 percent reduction by 2014.

We have seen how working across Gap Inc. is a critical component to making progress. Our Sustainable Building and Operations Working Group plays a key part in developing and executing our reduction plan by bringing together leaders from approximately 20 cross-functional departments at Gap Inc., including our brands, construction, real estate, operations, and supply chain. In addition, our Environmental Council, sponsored by a member of Gap Inc.'s senior leadership, reviews our progress and considers new initiatives. These groups will continue to play an important role as we work to achieve our most ambitious goal yet – reducing the absolute GHG emissions in our owned and operated facilities globally by 50 percent by the end of 2020.

Results

The chart below shows the continuous improvement in absolute GHG emissions in the U.S. and first year of global data for 2014 for our owned and operated facilities.

Greenhouse Gas Emissions (GHG) for Owned & Operated Facilities

	U.S.				Global
	2011	2012	2013	2014	2014
Total emissions (Scope 1 & 2)	486,874	444,045	422,272	407,454	499,859
Reduction rate vs. 2008	-20.8%	-27.8%	-31.3%	-33.6%	N/A
Scope 1 GHG emissions	23,867	18,474	25,024	26,293	31,275
Headquarters	1,842	1,589	1,855	1,739	1,780
Distribution centers	4,791	4,728	5,362	5,328	6,118
Stores	17,235	12,157	17,807	19,226	23,378
Scope 2 GHG emissions	463,006	425,571	397,248	381,161	468,584
Headquarters	15,614	13,214	18,850	18,308	23,116
Distribution centers	52,598	48,843	45,319	39,208	41,178
Stores	394,795	363,515	333,080	323,646	404,290

Hunting for Energy Savings

Over time, we have set increasingly ambitious goals to reduce our carbon emissions. Tackling climate change means shifting habits and ways of thinking that have become engrained. Sometimes an action will feel obvious in retrospect; other times, it means breaking into new territory.

One of our recent initiatives reflected both of these ideas. To find what we might not be seeing, we formed cross-functional teams of service providers, engineers and environmental impact experts to conduct “treasure hunts” at some of our stores and distribution centers (DCs). Their mandate: to look with fresh eyes at our operations and uncover new opportunities for improvements.

We formed teams of service providers, engineers and environmental impact experts to conduct energy “treasure hunts” at our stores and distribution centers.

We found many of them, a reminder that even the familiar can yield new ideas. Over the past two years, our “hunts” have led us to install LED lighting and smart thermostats, which allow us to adjust the temperature based on varying needs at different times of day. At our DC in Fresno, California, we found 90 improvement opportunities, which reduced energy use by 17 percent and operating costs by 30 percent. As we expected, some of the changes now seem easy, such as shutting off unneeded lights in the evening. Altogether, we conducted environmental treasure hunts at eight U.S. store locations and three DCs, and we rolled out changes based on priority and return on investment.

Improving Lighting and Shipping

Our stores could not function without lights – and the electricity used to power this lighting accounts for a significant amount of our energy consumption and GHG emissions. Reducing this energy usage brings multiple benefits, helping us decrease both our emissions and costs.

We have installed LED lights, which use 80 percent less energy than conventional lights, at more than 30 percent of our U.S. stores. These lights also last 5-10 times longer, are much brighter than the lights they replace, and pay for themselves in just two to three

years. Our teams in Japan and the U.K. have converted all of their stores to LED lighting, and our stores in China have been using energy-efficient lighting from the start.

Like lighting, shipping is something we rely on every day to run our business, presenting both a challenge and an opportunity. In 2011, we joined a voluntary government and industry collaboration – known as the SmartWay Shipper Program – that brings together carriers, freight shippers and logistics companies to improve fuel efficiency. In addition to being a certified U.S. Environmental Protection Agency (EPA) SmartWay shipping partner, we became a Canadian SmartWay partner in 2013.

Each year, we have committed to increasing the amount of freight we ship by SmartWay carriers by 5 percent. We also have committed to using cleaner modes of transportation and encouraging the use of fuel-saving strategies and technologies. Recognition of our efforts has told us that we are on the right track, as we have been named a SmartWay Excellence semi-finalist for three years, from 2012-2014.

We installed LED lights, which use 80 percent less energy and last 5–10 times longer, at more than 30 percent of our U.S. stores.



Moving forward, we are working to integrate more of our business operations into the SmartWay program and improve our data collection to better measure results. We are also beginning to address our logistics and distribution activities globally as our international business continues to expand. To work toward our new 2020 emissions reduction goal, we are using the EPA EnergyStar platform to analyze differences in store performance and prioritize regions, brands and initiatives with the greatest opportunities for energy improvements. And we continue to test new ideas. For example, this year we have been piloting a new energy efficiency program at 100 stores across North America that aims to provide real-time monitoring and management of our energy use.

Results

We continued to reduce the energy used to power our owned and operated facilities in the U.S. and developed a baseline for global energy consumption at our owned and operated facilities in 2014.

Energy Consumption for Owned & Operated Facilities

	U.S.				Global
	2011	2012	2013	2014	2014
Total energy consumption	1,014	966	952	928	1,168
Change vs. prior year		-4.7%	-1.4%	-2.5%	N/A
Headquarters	53	50	62	58	67
Distribution centers	126	126	123	113	121
Stores	835	790	767	757	980

* Units = millions of Kilowatt hours (KWh)

Diverting Waste

We know that we will have to make significant improvements to meet our new waste goal to divert 80 percent of waste from landfill for our U.S. facilities by the end of 2020.

In 2014, by comparison, we diverted only 29 percent of our waste from our U.S. stores. This is the first time we have set a goal on such a broad scale, and we are still exploring potential solutions. Our efforts focus on the boxes, hangers and plastic wrapping used to transport and protect our clothes as they move from distribution centers to stores. Reusing or recycling this packaging poses numerous challenges – for example, the nature of our lease arrangements with landlords and real estate developers often limits our influence over how waste is managed in our stores.

To address these challenges, we partnered with a third-party waste specialist to assess the waste generated in our U.S. stores in 2014. We are also looking into a range of possible solutions, from partnering with our landlords and other retail tenants in malls to creating mail-in or reverse logistics solutions to consolidate recyclable material in a central location. We may also pursue solutions that reduce packaging weight or change the materials in packaging to decrease overall waste volume or allow for greater recycling.



Creating Solutions for Women + Water

Few resources are as essential to people's health and well-being as water. The need for clean, safe water is not just an environmental issue, but a human rights issue.


And we want to help ensure that everyone touched by our business can have this need met. Not only do we rely on water to create our products, but the people who make our clothes must be able to care for themselves and their families – if they can't thrive in the communities where they live, neither can we. In addition, the processes behind making a piece of clothing – from dyeing fabric to laundering a pair of jeans – can affect not just the environment but people, and we feel a responsibility to work to reduce the negative environmental impacts.

For these reasons, water is one of our two primary environmental focus areas. And since we look at this issue through the lens of how it affects people, we have designed our strategy under the umbrella Women + Water. We know that 80 percent of the people who make our clothes are women – and just as important, women carry much of the burden

of the world's water challenges. In many regions, their daily activities revolve around water, as they bear responsibility for collecting it for the household and completing chores such as washing, cooking and cleaning. Each day, women and girls together spend more than 150 million hours collecting water – time that could be spent earning additional income, caring for their families, or getting an education⁵.

“Something as simple as access to water affects women differently than men. Improved access to water can literally transform the lives of women and girls in developing countries. It can give them back the time and opportunities they sacrifice daily to trek long distances to collect water. It can improve the health of a woman and her family.”

– Dr. Helene Gayle, CEO, McKinsey Social Initiative (former President & CEO, CARE USA)



We are focused on helping to ensure that women in communities where our products are made have access to safe water, and we are also addressing the water impacts created from the making of our clothes. Our priorities center on those areas where we have the greatest influence and ability to create improvements. Namely, they include partnering with fabric mills to improve their practices, building water filtration plants to provide people with access to clean water, and educating the women who make our clothes on safe water handling practices.

The Short Story

Women + Water

- About 80 percent of the people who make our clothes are women, and women are burdened by significant water challenges.
- Our Mill Sustainability Program establishes environmental standards for fabric mills.
- We are working toward zero discharge of hazardous chemicals in our supply chain by 2020.
- We have strengthened our Water Quality Program, which fights pollution created by denim laundries.
- Our P.A.C.E. program now includes a water, sanitation and hygiene (WASH) curriculum.

Mapping water risks and opportunities

One of the most important steps in building our strategy was conducting an assessment of both the risks and opportunities related to water that stem from the making of our clothes. In 2013, we partnered with Conservation International to assess freshwater risk for five of our key sourcing countries – Bangladesh, Cambodia, China, India and Indonesia. In 2014, we did further research into risks in China, India and Vietnam. Our goal was to identify the issues that have the greatest impact not just on our business, but on the people who make our clothes and their communities.

The study covered everything from water availability and quality to the risk of flooding and droughts. It also looked at cultural and social dimensions of water, such as improving gender equity, health, sanitation and safety. As we mapped these risks and opportunities, we found that fabric mills – which use a great deal of water to dye fabric – may have issues with both water quality and quantity. Even more important, these issues affect workers and their communities. In India, for example, some of our preferred mills and the people who work there face high levels of water stress.

In response, we are focusing on fabric mills located in such higher risk areas, starting with India. And we are linking our water efforts to our P.A.C.E. program, which helps women gain the skills to advance both at work and at home. We have added water, sanitation and hygiene (WASH) curriculum to P.A.C.E. to increase women's awareness around safe water handling practices. Through our P.A.C.E. partner, Swasti Health Resource Centre, we are also helping to build water filtration plants in rural communities in India, which to date have provided clean, safe water to more than 17,000 people.

Eighty percent of the people who make our clothes are women – and just as important, women carry much of the burden of the world's water challenges.



Creating a mill sustainability program

As beautiful as a piece of fabric may appear as part of a shirt or other piece of clothing, its production comes with a considerable environmental footprint. In fact, some of the most significant impacts of making our clothes come from fabric mills, which use a great deal of water, chemicals and energy during the dyeing and finishing process. Mills demonstrate how environmental practices carry a direct link to people's health and wellbeing. Wastewater must be treated before being returned to the surrounding environment to protect ecosystems and nearby communities.

We have been laying a foundation for our current work since 2004, when we launched a program to ensure that denim laundries do not harm local water supplies. In 2009 we went further, joining the Natural Resources Defense Council's (NRDC's) Responsible Sourcing Initiative, Clean by Design, which brought together a range of brands to better address the water impacts of fabric mills.

Our Mill Sustainability Program, launched in 2013, is focused on establishing clear environmental standards for fabric mills and integrating them into our sourcing decisions. Our program also aims to make broader improvements in the industry by identifying and sharing good practices for improving the use of water, chemicals and energy, as well as incentivizing

WATER

17,000
PEOPLE

Through our Women + Water program, 17,000 people in India now have access to clean water. We partner with fabric mills and the Natural Resources Defense Council to conserve water and fight pollution.

improved environmental performance. Ultimately, our goal is not just to improve environmental practices at fabric mills – but to ensure that these changes bring real benefits to people’s lives. Learn more in the section on Reducing Our Impacts at Fabric Mills on page 110.

Eliminating hazardous chemicals

In addition to working directly with mills, we are also addressing the use of chemicals in the production of our clothes. This use is significant – by leading estimates, on a global basis the apparel industry accounts for 25 percent of manufactured chemical usage⁶. These chemicals are used in wet processing of fabric and clothing such as dyeing and washing, thereby posing a risk of water contamination that could affect people living in nearby communities.

Each day, women and girls spend more than 150 million hours collecting water – time that could be spent earning additional income, caring for their families, or getting an education.



Our focus is to keep hazardous chemicals out of the processing of our clothes as much as possible. We believe we can best protect people and communities not by contending with the use of hazardous chemicals, but by avoiding their use altogether. We have set an ambitious goal to work towards zero discharge of hazardous chemicals (ZDHC) in our supply chain by 2020, through our partnership in the ZDHC 2020 program, an industry collaboration. In 2014, the group achieved a major milestone with the creation of an industry-wide standard for restricted substances, which bans the use of harmful chemicals, particularly in fabric production. We have communicated this restricted substances list to the vendors, factories and mills that make our clothing and are in the process of outlining its enforcement.

Strengthening our water quality program

Our company started off selling jeans, and they remain one of our most important products, so we feel a strong responsibility to ensure that making them does not bring environmental harm to people or communities. We recently took important steps to

strengthen our Water Quality Program, which monitors the wastewater created by denim laundries. From the start, we required all laundries producing for Gap Inc. brands to adhere to a set of industry-leading guidelines on water quality. In 2010, these guidelines became a requirement for doing business with our brands, and in 2013, we took steps to go even further.



We require all denim laundries producing for Gap Inc. brands to adhere to a set of industry-leading guidelines on water quality.

Specifically, we adopted more robust enforcement mechanisms for underperforming facilities, including having a third party verify their compliance. In 2014, our team provided training on these changes to all the laundries processing our denim in Bangladesh, where a large percentage of laundries are based. By March 2015, we had made significant progress, with all the laundries that process our clothes in compliance with our updated requirements. We will continue to work on this issue as we move forward – for example, by piloting a denim laundry energy and water conservation program.

Educating women about healthy water practices

All of our work is guided by the awareness that ultimately, it is people who are affected by the burden of the world's water issues. While we believe that our work must start with addressing the impacts of making our clothes, we also see a great opportunity to work directly with women and communities who are facing these issues.

We believe that our new P.A.C.E. curriculum focused on safe water handling practices offers critical support to women who are helping their families and communities cope with water challenges. We recently announced a major expansion of P.A.C.E., committing to educate one million women throughout the world by the end of 2020. This expansion means that we can reach many more women with effective strategies for managing some of the critical issues that they face around water every day.

In addition, the water filtration plants we are supporting through our partnership with Swasti are providing clean water to thousands of people. Three systems currently in operation already serve more than 5,000 households and 29 schools across 30 villages in India. The people who use these plants report that they have feel better physically – with fewer ailments like headaches, joint pain and diarrhea – and they also save time because the plants are a short distance from their homes.

We believe we can best protect people and communities not by contending with the use of hazardous chemicals, but by avoiding their use altogether.



As a global company, we recognize that making our clothes links us to people throughout the world and that it is up to us to touch their lives in a positive way. When a piece of fabric is dyed or a pair of jeans is laundered, we are committed to working to ensure that the environment – and people – are protected. We still have more work ahead – for example, while we ultimately aim to focus more on product sustainability and design, this is an area that we are in the early stages of exploring. At the same time, we see a clear path to creating greater improvements. To us, the heart of our strategy lies in seeing the connections between environmental issues and human rights issues – and consistently asking how the environmental improvements we make will bring real benefits to people's lives.

The Short Story

Fabric Mills

- Launched in 2013, our Mill Sustainability Program expands our environmental efforts well beyond our own operations.
- One key focus has been conducting environmental assessments at strategic mills, which expanded to 40 mills in 2015.
- We have helped mills in China participate in the Natural Resources Defense Council's Clean by Design program.
- This program has reduced water and electricity use as well as wastewater discharge.

As beautiful as a piece of fabric may appear as part of a shirt or other piece of clothing, it can come with a considerable environmental footprint.

Reducing Impacts at Fabric Mills

Some of the most important environmental impacts related to making our clothes come from fabric mills, which use a great deal of water, chemicals and energy during the dyeing and finishing process.

Mills demonstrate how environmental practices carry a direct link to people's health and well-being. Wastewater must be treated before being returned to the surrounding environment to ensure that both ecosystems and nearby communities are protected.

We launched our Mill Sustainability Program in 2013, and while it is focused on improving mills' environmental practices, our ultimate goal is to ensure that these changes bring benefits to the people who live in communities where fabric is produced. Our program focuses on establishing clear environmental standards for fabric mills and integrating them into our sourcing decisions. It also aims to make broader improvements in the industry by identifying and sharing good practices for improving the use of water, chemicals and energy.



We started by working with 20 strategic mills in China, India, Pakistan and Taiwan to conduct environmental assessments, covering such issues as their energy use, water consumption, wastewater treatment and disposal, and handling of waste and hazardous substances. Using the Higg Index, a shared standard developed by members of the Sustainable Apparel Coalition (SAC), we first asked mills to assess their own performance, then had the results verified by an independent third-party evaluator. In addition, we helped three mills in China participate in the NRDC's Clean by Design program, and they achieved significant reductions in water and electricity use, as well as wastewater discharge.

After analyzing environmental performance at the first 20 strategic mills, we have developed a roadmap that leads to clean water and responsible practices in textile mills and laundries. Some of our key actions to date have included:

- We expanded our Mill Sustainability Program in 2015, starting with a pilot to provide training on resource efficiency to three mills in water-stressed regions of northern India.
- We included 20 more strategic mills in our efforts to assess environmental performance, and are again participating in the Clean by Design program with a focus on mills in Suzhou, China.

We have developed a roadmap that leads to clean water and responsible practices in textile mills and laundries.

In partnership with our sourcing teams, we are also developing a mill performance standard that establishes clear expectations on compliance and risk management, integrating sustainability information into sourcing decisions. We are increasing the scope of our technical training program to help more mills improve their practices.

The next step on our journey is to collaborate with our brands' design and production teams to identify new opportunities for building on our Mill Sustainability Program. The more we understand the impacts of textile production and the choices we have in selecting fabrics, the more we can work toward creating a more sustainable apparel industry that is safe for people and communities.

The Short Story

Supply Chain

- To more fully address our environmental footprint, we partner with our suppliers to improve their environmental performance.
- We are a founding member of the Sustainable Apparel Coalition (SAC), an industry collaboration focused on creating shared standards.
- We were the first retailer to execute a large-scale rollout of the Higg Index, the SAC's environmental measurement tool, with suppliers.
- To support broader change, we have collaborated with suppliers in India to share best water management practices.

Addressing the Impacts of Our Supply Chain

We have focused most of our efforts to mitigate our environmental footprint on the parts of our business over which we have the most direct control. But we know that ultimately we can create greater impact by moving further into our supply chain, where a significant portion of the emissions related to our business originate.

We are developing a strategy to address these emissions, with a critical first step being to work with our global strategic suppliers to assess their environment impacts. We are also collaborating with the broader apparel industry to come up with wide-scale solutions.

In 2011, we were a founding member of the SAC, which brings together retailers, clothing manufacturers, environmental groups and academics to develop a shared vision of

sustainability. A primary goal of the SAC has been to create an industry-wide index to assess the social and environmental impacts of apparel and footwear. We have taken a leadership role in turning the SAC's vision into reality. In 2013, a full 80 percent of supplier data in its system came from Gap Inc. suppliers. And in 2014, we became the first retailer to execute a large-scale rollout of the Higg Index, the SAC's measurement tool, with 45 percent of the suppliers that make our products reporting on their environmental performance.

In 2014, we became the first retailer to execute a large-scale rollout of the Higg Index, the Sustainable Apparel Coalition's measurement tool, with 45 percent of the suppliers that make our products reporting on their environmental performance.



In addition to our work with the SAC, we began working with a targeted group of seven suppliers (representing approximately 50 facilities) in India to benchmark their water use in 2014. The results quickly highlighted facilities with the best water management practices, and we anonymously shared these insights with other facilities. We also created an online data dashboard that all of our suppliers can access to see how their environmental performance compares to competitors and peers. The dashboard breaks down their GHG emissions, energy use and water consumption by country and factory, identifying opportunities for improvements.

We aim to ensure that all of the suppliers and factories that make our branded clothing regularly assess and continuously improve their environmental performance. Our long-term strategy centers on training suppliers on more sustainable manufacturing practices, engaging them on the Higg Index and our goals, and working with them to establish environmental impact reduction goals.



Footnotes

- ¹ <http://www.worldbank.org/en/news/feature/2014/09/22/ifc-launches-she-works-partnership-to-advance-women-in-private-sector>.
- ² Christopher J. Ruhm, The Extent and Consequences of High School Employment, Journal of Labor Research, Vol. 16, No. 3, 1995
- ³ Policy Brief: “The Business Impacts of Female Empowerment Soft-Skills Training” by Achyuta Adhvaryu, Namrata Kala and Anant Nyshadham
- ⁴ http://www.ipcc.ch/pdf/assessment-report/ar5/syr/AR5_SYR_FINAL_SPM.pdf
- ⁵ Conservation International research for Gap Inc.
- ⁶ <http://www.csrwire.com/blog/posts/1167-creating-sustainable-apparel-value-chains-fostering-total-resource-productivity-and-impact-investing>

Appendix

About this Report

This report covers Gap Inc.'s two fiscal years ending January 31, 2014 (fiscal 2013) and January 31, 2015 (fiscal 2014). We currently publish a new report every two years and update data annually. This report has been reviewed by our Public Reporting Working Group, which has provided an independent statement on our reporting and programs. This group is comprised of experts on social and environmental issues from leading organizations that have been collaborating with us for more than ten years in our work to achieve greater transparency and sustainability.

We sought to prepare the report in accordance with the core option of the Global Reporting Initiative's (GRI) G4 Guidelines. We have not conducted external assurance for this report.

Please direct any questions to press@gap.com.

Public Reporting Working Group Statement

Amid the many reports companies publish, some stand out among the others for various reasons: the depth of the information, experience over time and willingness to discuss topics for which quick and/or easy answers are often not possible. Gap Inc., in its 2013-2014 report, stands out for several of those reasons.

Governance and vision in the company is strong. Starting with the letter from Art Peck, Gap Inc.'s CEO, citing some of the global and local realities in which Gap Inc. works, to the kind of change the P.A.C.E. program works to bring about in the lives of workers in different countries, Gap Inc. clearly places itself within the global reality and asks itself: what more can they do to bring about positive change for workers, their families and communities as well as the places where they work. As members of the Public Reporting Working Group (PRWG), we share the sense of urgency and the need to accelerate the progress to address pressing global challenges. These challenges include the 836 million people globally who live in extreme poverty, while one in five people in developing regions lives on less than \$1.25 a day. This is a challenge, not just for Gap Inc., but for the entire apparel industry as it addresses the social and environmental challenges that exist.

Enriched by its continued involvement with numerous stakeholders in different aspects of its work, Gap Inc. reports on its efforts to improve various components of its supply chain, including but not limited to: product improvement, sourcing commitment to specific factories, investigating when there are reported problems and, instead of cutting and leaving as many others do, staying to address the problems found. Gap Inc.'s work to address the Sumangali scheme in India is an example of a case where the company knew there was a problem, and even though they were not involved or responsible for it, stayed to work to address it.

Gap Inc.'s report demonstrates its long-running commitment to continuous improvement and their goal of using their position, whether within the industry or within a factory, to drive positive change. Bringing about change is not easy, especially if/when any company tries to do it alone. Collecting data points is not sufficient if these data points do not connect with the larger work to improve the lives of the workers, their families and communities, as well as the environment in which they live and work. Gap Inc.'s more holistic approach sets it apart from the run of the mill as it focuses on improving the lives of workers, both at work and at home.

Over the years, it has become obvious, that when done well, reporting serves several purposes. First, it is an assessment of what has been done, the benefits of those programs and processes as well as areas where improvement can take place. Second, reporting serves as a foundation point for planning and proceeding forward, with that planning based

on the learnings from the past programs, policies and practices throughout any company. For example, the integration of sourcing with social compliance should lead to more comprehensive means of preventing various issues commonly found in supply chains. The establishment of shared goals between the sustainability and sourcing teams at Gap Inc. is an important way to align the business and drive better performance. Third, reporting provides community-based groups, other civil society organizations, investors and consumers with the information that helps identify the companies that are making progress in improving factory conditions and the lives of workers.

The Gap Inc. report communicates with stakeholders about material issues and economic, social and environmental impacts. The proper use of data can drive progress within a company while reducing negative impacts and risks. This makes the company stronger and more viable for the future. At the same time, reporting, sharing one's successes and challenges helps drive progress by other companies throughout the world. In Gap Inc.'s report it is clear that they are willing to run the risk of trying new things, learning from both the successes and the things that did not work, and working to improve along the way.

The Public Reporting Working Group has existed since the company decided to publish its first report in 2003. At that time, Gap Inc. was one of the first apparel companies willing to talk about problems found and what they were trying to do to address them. We know that the stature of the PRWG members provided that safe space at a time when reporting was a risk. In the intervening years, as members of the PRWG, we have watched the openness of the company to stakeholder input expand, allowing for constructive criticism, celebration of positive results, and companionship in finding better ways to address on-going problems. Our long-term relationship with Gap Inc. has provided the possibility for building that trust, thereby making it possible to run the risk of trying things that might be daunting for others.

While we celebrate the progress that Gap Inc. continues to make, we want to call out the following as places where further work is needed.

1. We believe it would be beneficial for Gap Inc. to do annual reporting rather than reporting biannually. Investors increasingly use sustainability data points to evaluate a company just as they use annual financial reporting to understand a company's strengths. The ways companies handle social and environmental challenges are increasingly understood by investors to relate directly to corporate financial performance. Yet, too many investors still undervalue these efforts and do not see the connection. As the company seeks to use its position and profile to help drive change, it should consider the importance of the investment community. How can

the company communicate its CSR activities in ways that help investors appreciate the connection to corporate value creation, both for Gap Inc., and also for the industry as a whole?

2. We are concerned about the company's decision to report on issues found within the workplace by geographic region rather than by country. Country-specific data would make it easier to use the data within the context of local communities and cultural differences between countries. Country-specific data would also be more useful to local worker rights organizations in their work to highlight country-specific challenges and address them in their own communities.
3. It would be extremely helpful to add a section on labor recruitment in order for readers to understand the labor recruitment processes used by factories where Gap Inc. sources products. In view of the on-going challenges in labor recruiting documented in so many reports, it is important that Gap Inc. report on what it is doing in this area, which could be useful in moving other companies to be more deeply involved.

Even as we raise these concerns, we want to salute Gap Inc.'s effort to ensure equal pay for men and women around the world. Joining the United Nations' Women's Empowerment Principles and the expansion of the P.A.C.E. program reflect a broad commitment to women throughout the global footprint of the company. Gap Inc.'s announced expansion and long-term funding commitment to the program sets a standard for other companies to follow.

The company's strong commitment to reduce absolute greenhouse gas emissions 50 percent by 2020 is the kind of science-based leadership we need from the business community if we are to address the urgent challenge of climate change. The work to reduce waste (especially hazardous waste) associated with the production of the company's products and to mitigate water pollution are also important environmental issues. We credit the company for clearly linking this work to the people who work and live within the company's footprint. We encourage the company to move forward as noted in the report with its early stage focus on reducing environmental impacts throughout the full product life-cycle, with implications for the design, use and care of the apparel products that Gap Inc. sells.

Mr. Stu Dalheim, Vice President, Governance and Advocacy, Calvert Investments

Mr. Adam Kanzer, Managing Director, Domini Social Investments LLC

Dr. Ruth Rosenbaum, Executive Director, Center for Reflection, Education and Action

Rev. David Schilling, Senior Program Director, Interfaith Center on Corporate Responsibility